Other Financial Information

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities 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. We noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving internal control and its operation that we have reported to the management of the affiliates of the Organization in separate letters as indicated in the accompanying Schedule of Letters to Management.

This report is intended for the information of the audit committee, the Board of Directors, management of the Organization, and those agencies listed in the accompanying Combined Schedule of Federal Awards and Schedule of State of New Jersey Awards.

Ernst + Young LLP

October 7, 1996

Covenant House and Affiliates

Combined Schedule of Federal Awards

Year ended June 30, 1996

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	1996 Expenditures
	U.S. Department of Housing and Urban Development			
	Community Development Block Grants/Entitlement Grants:			
Covenant House California	Los Angeles Community Development Department	14.218	90367	$ 23,000
Covenant House California	Los Angeles Community Development Department	14.218	93186	23,000
				46,000
	Community Development Block Grants/Special Purpose Grants:			
	Technical Assistance Program:			
Covenant House California	Received directly	14.227	N/A	372,281 *
	Community Development Block Grants/State's Programs:			
Covenant House New Orleans	City of New Orleans	14.228	CD#50-143(95)	19,735
Covenant House New Orleans	City of New Orleans	14.228	SESG-008B	96,500
Covenant House New Orleans	City of New Orleans	14.228	ESG-011E	8,817
				125,052
	Emergency Shelter Grants Program:			
Covenant House Texas	Child Care Council of Greater Houston	14.231	FC 33544	112,761
	Supportive Housing Program:			
Covenant House Alaska	Received directly	14.235	N/A	74,742
Covenant House Florida	Received directly	14.235	N/A	135,297
Covenant House New Orleans	Received directly	14.235	N/A	239,814
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B95-0817B	57,848
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	14.235	TX21B95-0243-B	37,213
Covenant House Texas	Harris County Housing and Community Development Agency	14.235	TX21K150990	47,016
Under 21	Received directly	14.235		971,752
				1,563,682 *

Covenant House and Affiliates

Combined Schedule of Federal Awards (continued)

Year ended June 30, 1996

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	1996 Expenditures
	U.S. Department of Housing and Urban Development (continued)			
	Supplemental Assistance for Facilities to Assist the Homeless:			
Covenant House New Orleans	Louisiana Housing Finance Agency	14.236	LA48S91-1016	$ 1,971
	Innovative Homeless Initiative Demonstration Program:			
Covenant House Alaska	Received directly	14.245	N/A	163,385
Covenant House California	Received directly	14.245	N/A	20,509
Covenant House California	Salvation Army of Los Angeles	14.245	CA16195-0234	30,452
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.245	58-1669937	124,116
				338,462 *
	Special Purpose Acquisition Grant:			
Covenant House New Jersey	City of Atlantic City	N/A	NJ39SPG508	567,500 *
	Total U.S. Department of Housing and Urban Development			3,127,709
	U.S. Department of Health and Human Services			
	Linking Community-Based Primary Care, Substance Abuse, HIV/AIDS, and Mental Health Treatment Services:			
Covenant House California	Children's Hospital of Los Angeles	93.109	18H2NT100-727-01	8,904
Covenant House California	Children's Hospital of Los Angeles	93.109	85H2NT100-727-03	6,877
				15,781
	Acquired Immunodeficiency Activity (AIDS):			
Covenant House Florida	Received directly	93.118	N/A	259,945
Covenant House California	Children's Hospital of Los Angeles	93.118	127851	2,083
Covenant House Florida	Florida Department of Health and Rehabilitative Services	93.118	LPA74	35,210
Covenant House Florida	Florida Department of Health and Rehabilitative Services	93.118	LPC28	2,555
Covenant House Texas	Houston Public Health Services	93.118	FC 33.500	1,405
Under 21	Health Research Institute	93.118	8153321	4,850
Under 21	Health Research Institute	93.118	C005561	33,547
				339,595 *

Covenant House and Affiliates

Combined Schedule of Federal Awards (continued)

Year ended June 30, 1996

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	1996 Expenditures
	U.S. Department of Health and Human Services (continued)			
	Projects for Assistance in Transition from Homelessness:			
Covenant House New Orleans	Louisiana State Department of Health and Hospitals	93.150	MH95-IS-567	$ 37,600
	Project Grants for Health Services to the Homeless:			
Under 21	Received directly	93.151	N/A	171,380 *
	HIV Demonstrating Program for Children, Adolescents, and Women:			
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	93.153	PEDFY95	3,413
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	93.153	PEDFY96	36,707
				40,120
	Transitional Living for Homeless Youth:			
Covenant House New Jersey	Received directly	93.550	N/A	209,064 *
	Drug Education and Prevention for Homeless Youth:			
Covenant House New Jersey	Received directly	93.657	N/A	61,237
Covenant House New Orleans	Received directly	93.657	N/A	48,204
				109,441
	Foster Care-Title IV-E:			
Under 21	City of New York-Human Resources Administration	93.658	9681956	314,480 *
	HIV Emergency Relief Project Grants:			
Under 21	City of New York HIV Care Services Program	93.914	91-PRM-4530A	139,839

16. Pension Plan (continued)

projected benefit obligation by approximately $173,000. Such changes in the actuarial assumptions used will impact the determination of the net periodic pension cost in 1997.

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. The expense related to the defined contribution plan was approximately $64,000 during the year ended June 30, 1996.

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

17. Negotiation of Program Licenses

Under 21 maintains a residential program which is not licensed by the New York State Division of Youth (the "Division"). In order to obtain a license, Under 21 is required to obtain operating certificates for certain programs. One operating certificate has been obtained, and management and legal counsel of Under 21 are currently negotiating with the Division regarding attaining compliance with the Division's requirements and are of the opinion that such compliance will be achieved, and the license will be granted.

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.

Covenant House and Affiliates

Combined Schedule of Federal Awards (continued)

Year ended June 30, 1996

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	1996 Expenditures
	U.S. Department of Health and Human Services (continued)			
	Grants to Provide Outpatient Early Intervention Services with respect to HIV Disease:			
Under 21	Received directly	93.918	N/A	$ 227,549 *
	HIV Demonstration, Research, Public and Professional Education Projects:			
Covenant House California	Children's Hospital of Los Angeles	93.941	U62/CCU907198-05	2,080
	Capacity Expansion Program:			
Under 21	New York State Office of Alcoholism and Substance Abuse Services	93.950	4HR2T100314-03-2	119,171
	Block Grants for the Prevention and Treatment of Substance Abuse:			
Covenant House Florida	Florida Department of Health and Rehabilitative Services	93.959	JH214	55,618
	Adolescent Family Life Demonstration Programs:			
Covenant House New Jersey	Received directly	93.995	N/A	13,764
	Housing Opportunities for Persons With AIDS:			
Covenant House California	City of Los Angeles Department of Health and Human Services	93.008	CA16H93-F037	23,047
Covenant House California	City of Los Angeles Department of Health and Human Services	93.008	CA16H94-F050	23,339
				46,386
Covenant House New Orleans	Office of Community Services	N/A	58-1669937	16,268
	Total U.S. Department of Health and Human Services			1,858,136

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Report of Independent Auditors on Combined Schedule of Federal Awards and Schedule of State of New Jersey Awards

The Board of Directors
Covenant House

Our audit and those 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, 1996, taken as a whole. The accompanying Combined Schedule of Federal Awards for the year ended June 30, 1996 and Schedule of State of New Jersey Awards for the year ended June 30, 1996 are presented for purposes of additional analysis 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, 1996 and, in our opinion, based on our audit and the report of other auditors, are fairly presented in all material respects in relation to the combined financial statements taken as a whole.

Ernst & Young LLP

October 7, 1996

Covenant House and Affiliates

Combined Schedule of Federal Awards (continued)

Year ended June 30, 1996

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	1996 Expenditures
	U.S. Department of Agriculture			
	Food Distribution:			
Covenant House Alaska	Alaska Department of Education	10.550	AK-016921251	$ 2,879
Covenant House Texas	Texas Department of Human Services	10.550	10230B6	748
				3,627
	School Breakfast Program:			
Covenant House Alaska	Alaska Department of Education	10.553	AK-016921251	6,937
Covenant House Florida	Florida Department of Education	10.553	01-1237	51,562
Covenant House New Orleans	Louisiana Department of Education	10.553	7547	48,931
Under 21	New York State Department of Education	10.553	706139	88,631
				196,061*
	National School Lunch Program:			
Covenant House Alaska	Alaska Department of Education	10.555	AK-016921251	15,418
Covenant House Florida	Florida Department of Education	10.555	01-1237	27,473
Under 21	New York State Department of Education	10.555	706139	65,939
				108,830
	Total U.S. Department of Agriculture			308,518
	Federal Emergency Management Association			
	Federal Emergency Management Food and Shelter Program:			
Covenant House Alaska	United Way	83.523	14-0188-00-LR0-014	6,415
Covenant House California	United Way	83.523	LRO-163-14-0695-00	32,212
Covenant House Florida	United Way	83.523	14-1570-00-LRO-17	66,938
Covenant House New Orleans	United Way	83.523	10-3658-0024	5,446
Covenant House Texas	United Way	83.523	13.7828	220
Covenant House Texas	United Way	83.523	14.7828	31,816
Under 21	United Way	83.523	10-6314-030	18,539
Under 21	United Way	83.523	13-6314-030	13,667
	Total Federal Emergency Management Association			175,253 *

Covenant House and Affiliates

Combined Schedule of Federal Awards (continued)

Year ended June 30, 1996

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	1996 Expenditures
	U.S. Department of Education			
	Vocational Education-Basic Grants to States:			
Covenant House New Orleans	Louisiana Department of Education	84.048	28-96-BM-3-PA	$ 13,425
	Total U.S. Department of Education			13,425
	Total Federal Awards			$ 5,483,041
	Total Major Programs			$ 4,475,307
	Total Nonmajor Programs			1,007,734
	Total Federal Awards			$ 5,483,041

**Denotes major program.*

- Specific requirements:
  - Types of services allowed or unallowed
  - Eligibility
  - Matching, level of effort, or earmarking
  - Special tests and provisions
  - Special reporting
- Financial reports and claims for advances and reimbursements
- Amounts claimed or used for matching

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

As reported on the Combined Schedule of Federal Awards, the Organization expended 82% of its total federal awards under major programs.

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing financial reports and claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Organization's major federal programs and State of New Jersey programs, which are identified in the accompanying Combined Schedule of Federal Awards and Schedule of State of New Jersey Awards. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal program or a State of New Jersey program 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the affiliates of the Organization in separate letters as indicated in the accompanying Schedule of Letters to Management.

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Report of Independent Auditors on Internal Control Required by *Government Auditing Standards*

The 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, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We conducted our audit in accordance with generally accepted auditing standards and for those entities receiving federal and State of New Jersey awards in accordance with *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.

The management of the Organization is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Organization for the year ended June 30, 1996, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

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Report of Independent Auditors on Compliance Required by *Government Auditing Standards*

The 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, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We conducted our audit in accordance with generally accepted auditing standards and for those entities receiving federal and State of New Jersey awards in accordance with *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.

Compliance with laws, regulations, contracts, and grants applicable to the Organization is the responsibility of the Organization's management. As part of obtaining reasonable assurance about whether the combined financial statements are free of material misstatement, we performed tests of the Organization's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the combined financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the audit committee, the Board of Directors, management of the Organization, and those agencies listed in the accompanying Combined Schedule of Federal Awards and Schedule of State of New Jersey Awards. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

October 7, 1996

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Report of Independent Auditors on Internal Control Used in Administering Federal Programs and State of New Jersey Programs

The 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, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996. We have also audited the Organization's compliance with requirements applicable to major federal programs and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States for those entities receiving federal and State of New Jersey awards; and Office of Management and Budget ("OMB") Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, for those entities receiving federal and State of New Jersey awards. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the Organization complied with laws and regulations, noncompliance with which would be material to a major federal program or a State of New Jersey program. We did not apply procedures to test Covenant House Alaska's internal control structure used in administering federal awards for the year ended June 30, 1996. Those procedures were performed by other auditors whose report was furnished to us, and our report, insofar as it relates to compliance included for Covenant House Alaska, is based solely on the report of those other auditors.

In planning and performing our audit for the year ended June 30, 1996, we considered the Organization's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the Organization's combined financial statements and on its compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal programs and State of New Jersey programs. We have addressed internal control structure policies and procedures relevant to our audit of the combined financial statements in a separate letter dated October 7, 1996.

16. Pension Plan

Covenant House has a defined benefit pension plan (the "Plan") covering substantially all of its employees and the employees of certain 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 consist primarily of common stock, bonds and short-term investments.

Total pension expense for the Plan for fiscal year 1996 included the following:

Service cost—benefits earned during the year	$ 872,773
Interest cost on projected benefit obligation	623,400
Actual return on plan assets	(748,822)
Net amortization and deferral	84,976
Total pension cost	$ 832,327

The actuarially computed benefit obligations and trusteed net assets, at fair value, of the Plan are presented below:

Accumulated benefit obligation, including vested benefits of $5,624,459	$ 5,954,347
Projected benefit obligation for service rendered to date	$8,628,608
Plan assets at fair value	9,139,432
Plan assets in excess of projected benefit obligation	510,824
Unrecognized prior service cost being amortized over 15 years	224,287
Unrecognized net loss from past experience different from that assumed	(442,531)
Unrecognized net asset being recognized over 15 years	(351,693)
Accrued pension expense	$ (59,113)

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.25% and 5% (7.5% and 6% in 1995), respectively. The expected long-term rate of return on assets was 8%. The impact in fiscal year 1996 of the change in actuarial assumptions used was to decrease the

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 statement of activities as net assets released from restrictions.

Property, Plant and Equipment

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

Covenant House is the lessee of certain equipment under capital leases expiring in various years through fiscal 2000. Generally, assets under capital leases are purchased at the end of the lease term. Amortization of assets under capital leases is included in depreciation and amortization.

Contributed Services and Merchandise

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skill, 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 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.

This report is intended for the information of the audit committee, the Board of Directors, management of the Organization, and those agencies listed in the accompanying Combined Schedule of Federal Awards and Schedule of State of New Jersey Awards. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

October 7, 1996

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Report of Independent Auditors on Compliance with Specific Requirements Applicable to Nonmajor Federal and State of New Jersey Program Transactions

The 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, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

In connection with our audit of the combined financial statements of the Organization, and with our consideration of the Organization's internal control structure used to administer federal awards, as required by the Office of Management and Budget ("OMB") Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, we selected certain transactions applicable to certain nonmajor federal and State of New Jersey programs for the year ended June 30, 1996. As required by OMB Circular A-133, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed, matching, level of effort, or earmarking, State of New Jersey special tests and provisions, financial reports and claims for advances and reimbursements and amounts claimed or used for matching that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Organization's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Organization had not complied, in all material respects, with those requirements.

This report is intended for the information of the audit committee, the Board of Directors, management of the Organization, and those agencies listed in the accompanying Combined Schedule of Federal Awards and Schedule of State of New Jersey Awards. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

October 7, 1996

Covenant House and Affiliates

Schedule of State of New Jersey Awards

Year ended June 30, 1996

Award Recipient	New Jersey Grantor/Program Title	N.J. Grant Number	1996 Expenditures
Covenant House New Jersey	State of New Jersey Department of Health: "Off the Streets—New Jersey"	46.04080	$25,000
Covenant House New Jersey	Alcohol/Drug Abuse Prevention, Training and Education	95-561-ADA-00	10,000
		95-524-ADA-00	17,905
Covenant House New Jersey	Atlantic City Partnership for the Prevention of HIV/AIDS—passed through the City of Atlantic City	96-163-AIDS-00	41,209
			$94,114

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Use of Estimates

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

Investments and Investment Income

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

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

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

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

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

Covenant House and Affiliates

Schedule of Letters to Management

Year ended June 30, 1996

Covenant House Entity	Date Letter Issued
Under 21	September 20, 1996
Covenant House Alaska	August 15, 1996
Covenant House California	N/A
Covenant House Florida	August 21, 1996
Covenant House New Jersey	N/A
Covenant House New Orleans	N/A
Covenant House Texas	N/A

N/A—No letter to management issued.

11. Foreign Currency Translation

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

For the affiliate whose functional currency has been determined to be the local currency, assets and liabilities are translated using the exchange rates in effect at the statement of financial position date. Operations are translated based on a weighted average exchange rate for the fiscal period. The resulting translation gains and losses are reported as a component of the applicable net asset classification, unless the affiliate is operating in a highly inflationary country in which case translation gains and losses are reported in the combined statement of activities.

Approximately 13% of Covenant House's assets are held by foreign affiliates.

9. Debt Obligations (continued)

Covenant House's capitalized lease obligations are for data processing and telephone equipment. These leases provide for the transfer of ownership of the equipment at the end of the lease term.

Line of Credit

Covenant House has an unsecured line of credit agreement with Chase Manhattan Bank ("Chase") (formerly Chemical Bank) to borrow up to an aggregate amount of $2,000,000. Interest is payable at the Chase prime rate plus 75 basis points. There are no outstanding borrowings at June 30, 1996.

10. Split-Interest Arrangements

Covenant House is the beneficiary in a number of split-interest arrangements with donors. Under these arrangements, 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 arrangement (usually upon the death of the donor or donor's designee) at which time the remaining assets are generally unrestricted for Covenant House's use.

Covenant House records the assets of the arrangements on its statement of financial position (at market value) if the assets are controlled by Covenant House. At the time of the gift and adjusted annually, Covenant House records contribution income and a liability for amounts payable to annuitants using an actuarial calculation. The discount rate used in the calculation at June 30, 1996 was 7%. At June 30, 1996, approximately $1,981,000 of long-term investments and $1,111,000 of annuities payable in the accompanying financial statements related to such arrangements. State mandated insurance reserves related to these arrangements amounted to approximately $154,000.

In those situations where assets are controlled 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 arrangement. At June 30, 1996, long-term receivables relating to such arrangements were approximately $203,000.

8. Property, Plant and Equipment (continued)

Property held for sale amounted to approximately $14,162,000 at June 30, 1995 of which approximately $8,452,000 was taken off the market during fiscal year 1996 and is undergoing renovations to be used in the operations of Covenant House and, thus, has been reclassified to property, plant and equipment. A portion of property held for sale was sold for approximately $4,959,000 in fiscal year 1996 with a resulting gain of approximately $52,000.

In fiscal 1996, Covenant House New Jersey ("CHNJ") was awarded a grant of $1,000,000, of which $567,500 was received in 1996, from the City of Atlantic City (the "City") to be used for the construction of a new shelter facility. The grant provides that if CHNJ were to cease utilization of the facility in its program activities, CHNJ would be obligated to the City for the amount of the grant. On September 9, 1996, CHNJ entered into a contract, in the amount of $1,659,500, with a general contractor for renovation and alteration work to be performed on the new shelter facility located in Atlantic City.

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

9. Debt Obligations

Debt obligations consisted of obligations under capital leases (net of interest of approximately $20,600). As of June 30, 1996, aggregate principal payments of the capital lease obligations during the next four years are approximately as follows:

1997	$ 59,400
1998	32,600
1999	14,400
2000	7,600
	$114,000

7. Investments (continued)

Investment income for the year ended June 30, 1996 consisted of the following:

	Unrestricted	Temporarily Restricted	Total
Interest income	$2,355,763	$ 84,435	$2,440,198
Dividend income	103,511	–	103,511
Realized gains	617,644	–	617,644
Change in unrealized gains	102,162	–	102,162
Increase in value of split-interest arrangements	6,044	20,646	26,690
Total investment income	$3,185,124	$105,081	$3,290,205

8. Property, Plant and Equipment

Property, plant and equipment, net consisted of the following at June 30, 1996:

Land	$ 13,968,232
Buildings	27,564,112
Building improvements	13,694,520
Equipment	12,341,004
Equipment under capital leases	2,634,596
Leasehold improvements	10,758,283
Construction in progress	1,682,898
	82,643,645
Less accumulated depreciation and amortization (including accumulated amortization on equipment under capital leases of approximately $2,600,000)	(28,852,779)
	$ 53,790,866

7. Investments

Investments at June 30, 1996 consist of the following:

		Long-term			
	Short-term	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and cash equivalents	$ –	$ 4,172,323	$105,429	$ 259,434	$ 4,537,186
Common stocks	327,013	5,774,631	–	–	6,101,644
U.S. government and corporate debt securities	1,507,776	14,774,534	123,443	4,139,713	20,545,466
Mutual funds	410,633	2,119,563	609,070	–	3,139,266
Other	–	199,834	–	–	199,834
	2,245,422	27,040,885	837,942	4,399,147	34,523,396
Real estate held for sale	216,230	–	–	–	216,230
	$2,461,652	$27,040,885	$837,942	$4,399,147	$34,739,626

In fiscal 1996, the Organization changed its method of recording marketable securities from cost to fair value resulting from the adoption of Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* ("SFAS 124"). SFAS 124 requires not-for-profit organizations to record investments in all debt securities and marketable equity securities at fair value, with gains and losses (realized and unrealized) recorded in the statement of activities. The cumulative effect of this change in accounting principle as of June 30, 1995 was approximately $688,000. The effect on the change in net assets before cumulative effect of change in accounting principle for fiscal 1996 was approximately $102,000.

5. Contributions Receivable

At June 30, 1996, contributions receivable, net of estimated uncollectible amounts, and discounted to present value, are due to be collected as follows:

One year	$ 1,517,633
One to five years	182,421
More than five years	898,749
	$ 2,598,803

Included in contributions receivable is approximately $1,056,000, discounted to present value, relating to the fair value of rent-free use of a facility in Anchorage, Alaska contributed by an unrelated third party.

6. Grants and Contracts

Grants receivable of $1,213,150 are expected to be received by the Organization during fiscal 1997.

During fiscal 1996, Covenant House and its affiliates received funding under grants and contracts from various federal, state, and local government agencies. In accordance with the terms of certain government contracts, the records of certain affiliates are subject to audit for varying periods after the date of final payment of the contracts. The affiliates are liable for any disallowed costs; however, the managements of the affiliates believe that the amount of costs disallowed, if any, would not be significant.

As of June 30, 1996, the Organization 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 financial statements.

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 Classifications

To ensure compliance with restrictions placed on the resources available to Covenant House, Covenant House's accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purposes. In the financial statements, funds that have similar characteristics have been combined into three net asset categories: permanently restricted, temporarily restricted and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit Covenant House to use or expend all of the income derived from the donated assets for unrestricted purposes.

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

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

2. Summary of Significant Accounting Policies (continued)

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 1995 and Reclassifications

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Covenant House's financial statements for the year ended June 30, 1995, from which the summarized information was derived.

Certain 1995 amounts have been reclassified to conform to the current fiscal year presentation.

Supplemental Disclosures of Non-Cash Activities

During fiscal 1996, land, building, equipment and leasehold improvements of $8,451,840 (net of accumulated depreciation and amortization of $728,696) were transferred from property held for sale to property, plant and equipment.

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.

14. Reclassification of Net Assets

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors as follows:

Covenant House California new shelter facility	$ 2,131,022
Fixed asset acquisitions	201,903
Various time restrictions expired	163,000
Shelter and crisis care—mother/child	73,320
Health services	66,274
Hogar Santa Cecilia group homes	36,332
Outreach programs	39,933
Nineline internship program	20,147
Nujuyu project	18,153
Rights of passage	4,945
Mother/child programs	3,982
Other	15,755
	$ 2,774,766

15. Faith Community

Contributed services were provided by Covenant House Faith Community members. Community members are full-time volunteers who commit themselves to a year of service to runaway and homeless youth. Room and board, $15 stipend per week, health insurance and reimbursement for other personal expenses are provided to Community members. The expenses associated with Community members were approximately $779,000 for the year ended June 30, 1996 and are reported in the accompanying financial statements. The value of contributed services performed by community members was approximately $641,000 and was not recognized in the accompanying financial statements.

2. Summary of Significant Accounting Policies (continued)

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of square footage of office space occupied, salaries, and other bases determined by the managements of Covenant House and its affiliates.

Revenue Recognition

Covenant House records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, Covenant House records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services and gifts of long-lived assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Substantially all of Covenant House's government grants are cost reimbursement type grants and are considered conditional contributions for 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 statement of activities as net assets released from restrictions. It is Covenant House's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class activity.

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 and other services to approximately 44,000 runaway and homeless youths during fiscal 1996. In addition, Covenant House offers a national toll-free crisis intervention hotline.

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

Under 21
Covenant House Alaska
Covenant House California
Covenant House Florida
Covenant House New Jersey
Covenant House New Orleans
Covenant House Texas
Covenant House Washington, D.C.
Covenant House Western Avenue
Testamentum

In addition, Covenant House is the sole shareholder 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
Asociacion Casa Alianza (Guatemala)
Casa Alianza De Honduras
Fundacion Casa Alianza Mexico, I.A.P.

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

Covenant House and Affiliates

Combined Statement of Cash Flows

(Note 2)

	Year ended June 30	
	1996	1995
Cash flows from operating activities		
Change in net assets	$ 10,525,150	$ 12,301,088
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	(687,511)	–
Contribution of investments	(336,800)	–
Contributed occupancy costs	20,605	–
Contribution restricted for building construction	(2,622,206)	(2,206,170)
Depreciation and amortization	3,291,195	3,301,075
Permanently restricted contributions	(59,070)	(101,408)
Contributed inventory	35,137	140,524
Contributed property, plant and equipment	(9,300)	(894,322)
Gain on sale of fixed assets and property held for sale	(25,774)	(1,823,401)
Changes in operating assets and liabilities:		
Contributions receivable	(736,696)	(279,350)
Grants receivable	311,628	(259,156)
Other receivables	(463,494)	(83,093)
Prepaid expenses	138,517	134,594
Other assets	92,278	(261,751)
Accounts payable, accrued expenses and refundable advances	1,101,113	(644,142)
Annuities payable	423,103	159,844
Net cash provided by operating activities	10,997,875	9,484,332
Cash flows from investing activities		
Purchases of investments, net	(1,294,685)	(8,675,622)
Purchases of property, plant and equipment and construction in progress	(13,420,655)	(2,553,900)
Proceeds from sale of property held for sale	4,959,000	2,940,593
Proceeds from sale of property, plant and equipment	60,143	–
Proceeds from cash surrender value of keyman life insurance	–	1,181,443
Net cash used in investing activities	(9,696,197)	(7,107,486)
Cash flows from financing activities		
Contributions restricted for building construction	2,622,206	2,206,170
Payment of long-term debt and other debt obligations	(65,384)	(2,922,592)
Permanently restricted contributions	59,070	101,408
Net cash provided by (used in) financing activities	2,615,892	(615,014)
Net increase in cash and cash equivalents	3,917,570	1,761,832
Cash and cash equivalents at beginning of year	13,889,397	12,127,565
Cash and cash equivalents at end of year	$ 17,806,967	$ 13,889,397
Supplemental information		
Interest paid	$ 24,000	$ 191,000

See accompanying notes.

Covenant House and Affiliates

Combined Statement of Functional Expenses

Year ended June 30, 1996
with summarized financial information for the year ended June 30, 1995

	Program Services									Supporting Services			Total	
	Shelter and Crisis Care	Outreach	Mother/ Child	Nineline	Medical	Rights of Passage	Community Service Center	Public Education	Total	Fund-Raising	Management and General	Total	1996	1995
Salaries and wages	$11,326,443	$1,003,619	$2,410,292	$1,149,175	$ 1,366,390	$ 3,556,774	$ 2,584,157	$ 405,075	$ 23,800,925	$ 2,966,366	$ 3,394,238	$ 6,360,604	$ 30,161,529	$28,021,618
Payroll taxes	1,217,006	113,154	264,565	89,723	132,020	350,630	237,338	30,042	2,434,478	274,957	366,385	641,322	3,075,800	3,137,347
Employee benefits (Note 10)	1,592,543	129,910	293,178	134,325	164,133	414,439	293,631	35,903	3,058,062	299,091	546,331	845,422	3,903,484	4,001,417
Total salaries and related expenses	14,135,992	1,245,683	2,968,035	1,373,223	1,662,543	4,321,843	3,115,126	471,020	29,293,465	3,540,394	4,306,954	7,847,348	37,140,813	35,160,382
Faith Community costs (Note 17)	543,911	798	86,215	14,014	26,861	78,535	25,615	-	775,943	-	2,674	2,674	778,617	768,290
Accounting fees	1,123	96	165	-	-	457	495	18	2,348	18	285,091	285,109	287,457	237,855
Legal fees	18,820	3,296	954	4,376	958	14,692	2,096	516	40,882	3,086	17,634	20,720	61,602	40,342
Medical fees	1,034	5,161	18	86	349,396	1,753	3,362	265	359,265	351	234	585	359,850	317,362
Consulting fees	123,256	25,418	5,107	40,845	5,323	58,968	39,858	86,377	381,574	1,581,311	142,762	1,724,073	2,105,647	1,736,496
Supplies	397,656	30,813	81,413	9,962	48,774	122,300	74,298	89,725	804,541	82,903	180,139	253,042	1,057,583	969,888
Telephone	323,396	33,112	47,820	294,524	17,670	107,266	95,138	5,399	924,225	185,407	131,844	317,251	1,241,476	1,234,434
Postage, printing and mailing lists	85,132	12,102	6,983	17,308	2,447	18,254	23,699	3,494,458	3,660,383	8,168,868	63,285	8,232,153	11,892,536	16,239,583
Occupancy:														
Fuel and utilities	490,744	6,333	131,886	29,228	27,616	478,668	81,286	1,871	1,237,832	57,511	183,092	240,603	1,478,435	1,593,592
Repairs and maintenance	428,345	4,291	67,812	2,390	21,288	136,773	43,624	1,274	696,897	31,934	164,938	196,872	893,769	862,272
Donated facilities	96,000	14,931	-	-	-	-	30	-	110,981	-	59,840	59,840	170,821	113,951
Rent and other	278,771	53,063	43,963	6,988	8,336	100,847	236,372	526	728,850	33,831	131,571	165,402	894,252	903,235
Equipment	234,571	16,947	33,165	22,917	15,618	66,701	75,537	4,164	469,420	263,373	191,501	454,874	924,294	609,297
Transportation	213,821	58,490	36,325	27,275	9,728	83,467	76,110	19,750	515,566	55,711	106,593	162,304	677,870	571,028
Specific assistance to individuals:														
Food	794,574	58,138	229,968	-	80	324,785	73,672	-	1,361,217	-	1,492	1,492	1,362,709	1,285,814
Medical	188,826	1,900	-	-	137,576	3,638	3,479	-	335,439	-	1,676	1,676	337,115	236,542
Donated medical	-	-	-	-	592,573	-	-	-	592,573	-	-	-	592,573	543,543
Clothing, allowances and other	1,087,585	54,447	104,643	73	4,688	226,514	257,020	60	1,735,032	838	10,079	10,917	1,745,949	1,326,876
Donated clothing and merchandise	149,922	6,159	76,650	-	-	33,264	4,027	-	292,322	21,896	247	22,143	314,465	394,685
Temporary help	109,207	1,733	3,050	758	1,056	38,882	3,660	7,001	165,351	28,600	67,080	95,680	261,031	148,898
Other purchased services	370,217	17,887	83,928	3,389	46,309	155,077	78,491	502,750	1,260,138	1,792,514	296,255	2,088,769	3,348,907	2,299,888
Dues, licenses and permits	15,693	2,186	1,674	5,718	1,854	7,408	3,858	1,625	40,026	7,561	15,422	22,983	63,009	68,140
Subscriptions and publications	14,915	675	2,214	2,163	7,604	7,366	4,733	2,149	42,627	15,012	15,380	30,392	72,819	57,643
Staff recruitment	33,365	4,848	3,053	-	8,684	9,836	7,346	437	87,487	2,067	30,712	32,779	120,266	160,096
Insurance	148,330	19,722	29,212	-	83,418	83,281	26,030	2,703	392,706	4,363	164,081	168,444	561,150	674,782
Donated services	35,255	8,132	3,195	-	52,148	5,028	6,105	8,026	97,889	23,411	3,286	26,697	124,586	138,393
Miscellaneous	339,252	15,608	28,119	30,178	14,335	79,023	47,304	31,694	577,857	128,823	233,298	362,123	939,980	936,607
Bank charges and fees	327	-	-	-	-	-	-	-	327	416,052	110,943	526,995	527,322	534,758
Interest	1,622	56	-	256	-	60	-	-	1,994	5,140	17,111	22,251	24,245	191,000
Loss on foreign currency	-	-	-	-	-	-	-	-	-	-	284,166	284,166	284,166	176,508
Total functional expenses before depreciation and amortization	20,652,890	1,677,248	4,059,695	1,876,473	3,366,959	6,482,888	4,406,738	4,661,766	46,984,657	16,451,797	7,188,560	23,640,357	70,625,014	65,712,775
Depreciation and amortization	1,587,646	25,684	147,756	133,261	182,159	378,581	108,167	3,947	2,570,201	260,150	460,844	720,994	3,291,195	3,301,075
Total functional expenses	22,240,536	1,703,932	4,207,451	2,009,734	3,549,118	6,861,469	4,514,905	4,665,713	49,554,858	16,711,947	7,649,404	24,361,351	73,916,209	69,013,850
Less direct costs of special events	-	-	-	-	-	-	-	-	-	(599,586)	-	(599,586)	(599,586)	(345,675)
Total expenses reported by function on statement of activities	$ 22,240,536	$ 1,703,932	$4,207,451	$2,009,734	$ 3,549,118	$ 6,861,469	$ 4,514,905	$ 4,665,713	$ 49,554,858	$ 16,112,361	$ 7,649,404	$ 23,761,765	$ 73,316,623	$ 68,668,175

See accompanying notes.

Covenant House and Affiliates

Combined Statement of Activities

Year ended June 30, 1996
with summarized financial information for
the year ended June 30, 1995

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total 1996	Total 1995
Contributions, revenue and reclassifications:						
Contributions:						
Contributions from individuals, foundations and corporations, including legacies and bequests of $5,398,947		$66,471,593	$ 522,285	$ 59,070	**$ 67,052,948**	$65,801,937
Contributed services and merchandise		1,069,737	–	–	**1,069,737**	1,125,744
Government grants and contracts		7,411,739	634,736	–	**8,046,475**	7,401,202
Special events revenue	$2,795,955					
Less direct costs of events	599,586					
Net special events income		2,169,619	26,750	–	**2,196,369**	1,329,920
Total contributions		77,122,688	1,183,771	59,070	**78,365,529**	75,658,803
Revenue:						
Investment income *(Note 7)*		3,185,124	105,081	–	**3,290,205**	1,676,302
Other income		1,415,754	–	–	**1,415,754**	1,195,376
Net income of unconsolidated affiliate		–	–	–	–	17,963
Gain on sale of fixed assets and property held for sale		25,774	–	–	**25,774**	1,823,401
Total revenue		4,626,652	105,081	–	**4,731,733**	4,713,042
Total contributions and revenue		81,749,340	1,288,852	59,070	**83,097,262**	80,371,845
Reclassifications *(Note 14)*:						
Net assets released from restrictions		2,774,766	(2,774,766)	–	–	–
Total contributions, revenue and reclassifications		84,524,106	(1,485,914)	59,070	**83,097,262**	80,371,845
Expenses *(Notes 4, 15 and 16)*:						
Program services		49,554,858	–	–	**49,554,858**	46,511,688
Supporting services:						
Management and general		7,649,404	–	–	**7,649,404**	7,033,912
Fund-raising		16,112,361	–	–	**16,112,361**	15,122,575
Total supporting services		23,761,765	–	–	**23,761,765**	22,156,487
Total expenses		73,316,623	–	–	**73,316,623**	68,668,175
Current year translation adjustment *(Note 11)*		(57,000)	–	–	**(57,000)**	(597,418)
Total expenses and translation adjustment		73,259,623	–	–	**73,259,623**	68,070,757
Change in net assets before cumulative effect of change in accounting principle		11,264,483	(1,485,914)	59,070	**9,837,639**	12,301,088
Cumulative effect of change in accounting for investments *(Note 7)*		685,619	1,892	–	**687,511**	–
Change in net assets		11,950,102	(1,484,022)	59,070	**10,525,150**	12,301,088
Net assets beginning of year		87,519,774	4,288,981	4,340,077	**96,148,832**	83,847,744
Net assets end of year		$99,469,876	$ 2,804,959	$ 4,399,147	**$ 106,673,982**	$96,148,832

See accompanying notes.

Covenant House and Affiliates

Combined Statement of Financial Position

	June 30 1996	1995
Assets		
Cash and cash equivalents	$ 17,806,967	$ 13,889,397
Short-term investments *(Note 7)*	2,461,652	4,142,226
Short-term contributions receivable *(Note 5)*	1,517,633	618,146
Grants receivable *(Note 6)*	1,213,150	1,524,778
Other receivables	1,128,311	594,547
Inventory	856,289	891,426
Prepaid expenses	1,088,162	1,164,250
Property held for sale, net *(Note 8)*	801,987	14,161,652
Property, plant and equipment, net *(Note 8)*	53,790,866	35,178,645
Long-term contributions receivable *(Note 5)*	1,081,170	1,267,363
Long-term other receivables *(Note 10)*	202,521	199,723
Long-term investments *(Note 7)*	32,277,974	28,281,903
Other assets	655,745	984,389
Total assets	$114,882,427	$102,898,445
Liabilities and net assets		
Accounts payable, accrued expenses and refundable advances *(Note 16)*	$ 6,983,314	$ 5,882,201
Annuities payable *(Note 10)*	1,111,384	688,281
Debt obligations *(Note 9)*	113,747	179,131
Total liabilities	8,208,445	6,749,613
Commitments and contingencies *(Notes 6, 17, 19 and 20)*		
Net assets:		
Unrestricted:		
Undesignated	18,422,081	16,581,663
Investment in property, plant and equipment	54,922,275	48,801,542
Board designated	27,169,582	23,237,631
Accumulated translation adjustment	(1,044,062)	(1,101,062)
Total unrestricted	99,469,876	87,519,774
Temporarily restricted *(Note 12)*	2,804,959	4,288,981
Permanently restricted *(Note 13)*	4,399,147	4,340,077
Total net assets	106,673,982	96,148,832
Total liabilities and net assets	$114,882,427	$102,898,445

See accompanying notes.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Donated use of facility	$1,056,462
Covenant House New Jersey new shelter facility	567,500
Split-interest arrangements	510,826
Time restrictions	271,320
Covenant House California new shelter facility	75,148
Various acquisitions of fixed assets	59,325
Food service	44,446
European Economic Community grant	35,587
Community service center	34,000
Special pilot program	24,875
Donation from CEE legal support	20,239
Clinic operations	15,121
Playground and GED equipment	10,000
Pastoral ministry	4,410
Shelter and crisis care	6,062
GED program	8,462
Substance abuse programs	9,530
Outreach programs	5,048
Scholarship funds	9,425
Mother/child programs	2,900
Educational/vocational programs	6,276
Nineline internship program	401
Miscellaneous other	27,596
	$2,804,959

13. Permanently Restricted Net Assets

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

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.

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.

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

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.

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

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.

4. Allocation of Joint Costs

The joint costs of certain informational mailings that contain an appeal for funds are allocated between the public education program and fund-raising. Of the total joint costs of approximately $5,395,000 incurred in 1996, $2,271,000 was allocated to public education.

2. Summary of Significant Accounting Policies (continued)

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 assets 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 the Organization in estimating its fair value disclosures for financial instruments:

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

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

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

See Note 6 for additional information regarding investments.

Land, Building and Equipment

Land, building 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, ranging from three to five years. Leasehold improvements are amortized over the lesser of the term of the lease or their estimated useful lives.

2. Summary of Significant Accounting Policies (continued)

Contributed Services and Merchandise

Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair market 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.

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

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, additions to net assets and deductions from net assets. Actual results could differ from those estimates.

3. Components of Programs and Supporting Services

The *Shelter and Crisis Care* program provides crisis care, shelter, food, clothing, counseling and legal advice to abandoned and runaway youths in the New Orleans area.

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

Mother/Child services include shelter, assessment, counseling, case management, referral, parenting education, and nursery services for mothers and their children while in residence.

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

Rights of Passage provides transitional housing services for up to 24 months to youths, including individual counseling and help with completing their education and finding jobs and housing.

Covenant House New Orleans

Statement of Functional Expenses

Year ended June 30, 1996 with summarized financial information for the year ended June 30, 1995

	Program Services					
	Shelter and Crisis	Medical	Mother/ Child	Community Service Center	Rights of Passage	Outreach
Salaries	$ 503,159	$ 52,229	$ 411,676	$ 126,857	$ 331,287	$ 112,563
Payroll taxes	57,751	5,704	47,250	11,204	33,518	11,777
Employee benefits	49,741	4,276	40,698	19,048	34,387	16,331
Donated services	3,687	52,094	3,017	3,663	5,028	–
Medical fees	22	12,204	18	678	1,051	3,000
Consultant fees	3,328	29	2,723	8,777	2,991	10,800
Supplies	17,062	1,811	13,960	9,119	6,206	938
Telephone	6,591	258	5,392	5,948	5,311	610
Printing and postage	736	447	602	886	446	208
Occupancy:						
Fuel and utilities	32,537	3,114	26,622	27,787	37,843	–
Repairs and maintenance	12,866	1,566	10,526	14,879	9,498	–
Other	72,109	4,016	58,999	2,569	95,030	–
Equipment	3,061	408	2,504	865	1,466	–
Travel	10,115	987	8,276	3,356	7,930	4,572
Special assistance to individuals:						
Food	52,060	–	42,594	–	10,519	6,196
Medical	–	16,015	–	–	1,217	–
Clothing, allowances and miscellaneous	17,177	111	14,054	1,961	2,774	22
Donated clothing and merchandise	7,142	–	5,844	–	18	3,708
Other purchased services	31,601	2,983	25,855	19,530	13,542	–
Dues, licenses and permits	826	8	675	870	678	27
Subscriptions and publications	1,036	697	847	1,059	799	26
Staff recruitment	549	183	450	324	358	–
Insurance	14,055	848	11,499	7,199	11,218	4,247
Community expenses	40,909	–	33,471	–	24,793	–
Miscellaneous	(1,401)	256	(1,146)	967	1,461	3,724
Total functional expenses before amortization and depreciation	936,719	160,244	766,406	267,546	639,369	178,749
Amortization	1,089	154	891	154	616	–
Depreciation	10,845	1,169	8,873	39,113	4,547	9,757
Total functional expenses	948,653	161,567	776,170	306,813	644,532	188,506
Less direct costs of special events	–	–	–	–	–	–
Total expenses	$ 948,653	$ 161,567	$ 776,170	$ 306,813	$ 644,532	$ 188,506

		Supporting Services		Total Expenses	
Public Education	Total Programs	Management and General	Fund-Raising	1996	1995
$ 24,539	$ 1,562,310	$ 160,304	$ 142,015	$ 1,864,629	$ 1,671,110
1,971	169,175	14,697	12,484	196,356	170,667
2,605	167,086	16,238	14,297	197,621	180,060
526	68,015	3,286	926	72,227	112,830
–	16,973	–	–	16,973	5,363
2,556	31,204	24,475	51,643	107,322	104,365
527	49,623	11,410	3,778	64,811	52,396
541	24,651	14,252	3,805	42,708	37,303
135,286	138,611	7,055	302,158	447,824	343,133
–	127,903	11,399	2,441	141,743	132,272
32	49,367	10,702	2,726	62,795	41,332
–	232,723	29,505	6,426	268,654	277,785
33	8,337	204	214	8,755	5,381
1,201	36,437	4,812	2,612	43,861	45,791
–	111,369	–	–	111,369	90,272
–	17,232	–	–	17,232	7,852
–	36,099	–	–	36,099	38,616
–	16,712	247	3,100	20,059	42,742
57	93,568	14,318	15,378	123,264	102,584
364	3,448	511	471	4,430	2,840
71	4,535	294	186	5,015	1,908
13	1,877	431	382	2,690	2,688
833	49,899	5,520	1,665	57,084	47,691
–	99,173	–	–	99,173	104,019
71	3,932	30,764	13,601	48,297	24,065
171,226	3,120,259	360,424	580,308	4,060,991	3,645,065
–	2,904	741	203	3,848	3,848
234	74,538	4,123	2,521	81,182	52,388
171,460	3,197,701	365,288	583,032	4,146,021	3,701,301
–	–	–	(11,803)	(11,803)	(5,100)
$ 171,460	$ 3,197,701	$ 365,288	$ 571,229	$ 4,134,218	$ 3,696,201

See accompanying notes.

Covenant House New Orleans

Statement of Cash Flows

	Year ended June 30 1996	1995
Operating activities		
Increase (decrease) in net assets	**$ (52,874)**	$ 764,526
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Cumulative effect of change in accounting principle	**(138,387)**	–
Depreciation and amortization	**85,030**	56,236
Net unrealized gain on investments	**(5,404)**	–
Loss on disposition of equipment	**285**	–
Bequest of land, building and stocks	**–**	(879,965)
Contributed inventory	**6,077**	11,016
Contributed equipment	**(9,300)**	(10,557)
Change in operating assets and liabilities:		
Receivables	**19,688**	88,216
Prepaid expenses and other assets	**(8,792)**	(2,958)
Accounts payable and accrued expenses	**(50,923)**	(58,493)
Refundable advances	**(20,500)**	2,485
Due to parent	**(6,270)**	30,672
Net cash provided by (used in) operating activities	**(181,370)**	1,178
Investing activities		
Acquisition of land, building and equipment	**(102,065)**	(312,599)
Sale of real estate held for resale	**40,000**	–
Purchase of investments	**(269,112)**	(797,310)
Sale of investments	**1,048,722**	758,826
Transfer to board-designated assets	**(574,020)**	(301,665)
Net cash provided by (used in) investing activities	**143,525**	(652,748)
Net decrease in cash and cash equivalents	**(37,845)**	(651,570)
Cash and cash equivalents at beginning of year	**87,351**	738,921
Cash and cash equivalents at end of year	**$ 49,506**	$ 87,351

See accompanying notes.

Covenant House New Orleans

Notes to Financial Statements

June 30, 1996

1. Organization

Covenant House New Orleans is a not-for-profit corporation established in 1984 for the purpose of providing programs for the care and shelter of runaway and homeless youths under the age of 21. Covenant House New Orleans is affiliated with similar organizations in other locations, all of which are affiliates of Covenant House, the parent, a not-for-profit corporation which provides guidance and support for various activities related to the care of youths. Affiliated organizations are as follows:

268 West 44th Corp.
Asociacion Casa Alianza (Guatemala)
Casa Alianza de Honduras
Covenant House Alaska
Covenant House California
Covenant House Florida
Covenant House New Jersey
Covenant House Texas
Covenant House Toronto
Covenant House Washington, D. C.
Covenant House Western Avenue
Covenant International Foundation
Fundacion Casa Alianza Mexico, I. A. P.
Testamentum
Under 21 (New York)

Covenant House provides management and organizational support for its affiliated organizations. In addition to fund-raising activities for its own programs, Covenant House conducts certain fund-raising activities on behalf of the affiliates.

2. Summary of Significant Accounting Policies

Summarized Financial Information for 1995

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Covenant House New Orleans' financial statements for the year ended June 30, 1995, from which the summarized information was derived.

2. Summary of Significant Accounting Policies (continued)

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 resources are classified for accounting and reporting into funds established according to their nature and purpose. 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.

- 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 service classifications on the basis of square footage of office space occupied, salaries and other bases determined by Covenant House New Orleans' management.

In our opinion, based on our audit and the report of other auditors, the Organization complied, in all material respects, with the requirements governing types of services allowed or unallowed, eligibility, matching, level of effort, or earmarking, allowable costs/cost principles, special tests and provisions, special reporting, financial reports and claims for advances or reimbursements, and amounts claimed or used for matching that are applicable to each of its major federal programs for the year ended June 30, 1996.

This report is intended for the information of the audit committee, the Board of Directors, management of the Organization, and those agencies listed in the accompanying Combined Schedule of Federal Awards. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

October 7, 1996

2. Summary of Significant Accounting Policies (continued)

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. Substantially all of Covenant House New Orleans' government grants are on cost reimbursement basis and are considered to be conditional contributions for applying revenue recognition policies. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts.

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 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 net asset class activity.

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 New Orleans 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 statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, Covenant House New Orleans considers all 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.

Report of Independent Auditors on Compliance with Specific Requirements Applicable to Major Federal Programs

The 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, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We have also audited the Organization's compliance with the requirements governing types of services allowed or unallowed, eligibility, matching, level of effort or earmarking, allowable costs/cost principles, special tests and provisions, special reporting, financial reports and claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to each of its major programs, which are identified in the accompanying Combined Schedule of Federal Awards for the year ended June 30, 1996. We did not audit Covenant House Alaska's compliance with specific requirements governing its federal awards for the year ended June 30, 1996. That compliance was audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to compliance included for Covenant House Alaska, is based solely on the report of those other auditors. The management of the Organization is responsible for the Organization's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States for those entities receiving federal awards, and the Office of Management and Budget ("OMB") Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, for those entities receiving federal awards. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Covenant House New Orleans

Statement of Financial Position

	June 30 1996	1995
Assets		
Cash and cash equivalents	**$ 49,506**	$ 87,351
Contributions receivable - short-term	**57,537**	92,641
Grants receivable	**178,796**	121,387
Other receivables	**4,793**	9,324
Donated inventory	**10,760**	16,837
Prepaid expenses and other assets	**38,673**	29,881
Real estate held for resale	**20,000**	60,000
Land, building and equipment, net of accumulated depreciation of $885,763 as of 1996 and $801,357 as of 1995	**1,031,385**	1,005,336
Contributions receivable - long-term	**6,538**	44,000
Long-term investments	**2,327,778**	2,389,576
Total assets	**$ 3,725,766**	$ 3,856,333
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 161,842**	$ 212,765
Refundable advances	**60,000**	80,500
Due to parent	**75,886**	82,156
Total liabilities	**297,728**	375,421
Net assets:		
Unrestricted:		
Board designated	**2,327,778**	2,389,576
Investment in land, building and equipment	**1,031,385**	1,005,336
Total unrestricted	**3,359,163**	3,394,912
Temporarily restricted	**68,875**	86,000
Total net assets	**3,428,038**	3,480,912
Total liabilities and net assets	**$ 3,725,766**	$ 3,856,333

See accompanying notes.

ERNST & YOUNG LLP ▪ 787 Seventh Avenue New York, New York 10019 ▪ Phone: 212 773 3000

Report of Independent Auditors on Compliance with the General Requirements of Federal Programs

The 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, 1996, and have issued our reports thereon, which expressed reliance on other auditors, dated October 7, 1996.

We have applied procedures to test the Organization's compliance with the following requirements applicable to its federal programs which are identified in the accompanying Combined Schedule of Federal Awards for the year ended June 30, 1996: political activity; cash management; civil rights; federal financial reports; allowable costs/cost principles; drug-free workplace; and administrative requirements. We did not apply procedures to test Covenant House Alaska's compliance with the general requirements of its federal programs for the year ended June 30, 1996. Those procedures were performed by other auditors whose report was furnished to us, and our report, insofar as it relates to compliance included for Covenant House Alaska, is based solely on the report of those other auditors.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Organization's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Organization had not complied, in all material respects, with those requirements.

This report is intended for the information of the audit committee, the Board of Directors, management of the Organization, and those agencies listed in the accompanying Combined Schedule of Federal Awards and Schedule of State of New Jersey Awards. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

October 7, 1996

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701 Poydras Street
New Orleans
Louisiana 70139-5869

Phone: 504 581 4200

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, 1996, 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.

We conducted our audit in accordance with generally accepted auditing standards. 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 at June 30, 1996, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 6 to the accompanying financial statements, during fiscal 1996, Covenant House New Orleans adopted the accounting and disclosure requirements of newly promulgated Statement of Financial Accounting Standards No. 124 related to financial instruments held by not-for-profit organizations.

Ernst & Young LLP

September 11, 1996

Ernst & Young LLP
787 Seventh Avenue
New York, New York 10019
Phone: 212 773 3000

Mr. Bruce Henry
Executive Director
Under 21
460 West 41st Street
New York, NY 10036

Dear Mr. Henry:

We have audited the combined financial statements of Covenant House and Affiliates (the "Organization") for the year ended June 30, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We have also audited the Organization's compliance with general requirements of federal programs, specific requirements applicable to major federal programs and compliance with specific requirements applicable to nonmajor program transactions and have issued our reports thereon dated October 7, 1996. The results of our procedures disclosed no instances of noncompliance with those requirements related to Under 21's federal programs.

This report is intended solely for the information of the Finance Committee, Board of Directors, management of Under 21, and those agencies listed in the Combined Schedule of Federal Awards which provided funds to Under 21.

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

Ernst + Young LLP

October 7, 1996

ERNST & YOUNG LLP

787 Seventh Avenue
New York, New York 10019

Phone: 212 773 3000

Mr. James White
Executive Director
Covenant House New Jersey
14 William Street
Newark, NJ 07104

Dear Mr. White:

We have audited the combined financial statements of Covenant House and Affiliates (the "Organization") for the year ended June 30, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We have also audited the Organization's compliance with general requirements of federal programs, specific requirements applicable to major federal programs and compliance with specific requirements applicable to nonmajor program transactions and have issued our reports thereon dated October 7, 1996. The results of our procedures disclosed no instances of noncompliance with those requirements related to Covenant House New Jersey's federal programs.

This report is intended solely for the information of the Finance Committee, Board of Directors, management of Covenant House New Jersey, and those agencies listed in the Combined Schedule of Federal Awards which provided funds to Covenant House New Jersey.

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

Ernst + Young LLP

October 7, 1996

ERNST & YOUNG LLP

787 Seventh Avenue
New York, New York 10019

Phone: 212 773 3000

Mr. Fred Ali
Executive Director
Covenant House California
1325 N. Western Avenue
Hollywood, California 90027

Dear Mr. Ali:

We have audited the combined financial statements of Covenant House and Affiliates (the "Organization") for the year ended June 30, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We have also audited the Organization's compliance with general requirements of federal programs, specific requirements applicable to major federal programs and compliance with specific requirements applicable to nonmajor program transactions and have issued our reports thereon dated October 7, 1996. The results of our procedures disclosed no instances of noncompliance with those requirements related to Covenant House California's federal programs.

This report is intended solely for the information of the Finance Committee, Board of Directors, management of Covenant House California and those agencies listed in the Combined Schedule of Federal Awards which provided funds to Covenant House California.

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

Ernst & Young LLP

October 7, 1996

ERNST & YOUNG LLP

787 Seventh Avenue
New York, New York 10019

Phone: 212 773 3000

Ms. Maudelle Cade
Executive Director
Covenant House New Orleans
611 North Rampart Street
New Orleans, Louisiana 70112

Dear Ms. Cade:

We have audited the combined financial statements of Covenant House and Affiliates (the "Organization") for the year ended June 30, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We have also audited the Organization's compliance with general requirements of federal programs, specific requirements applicable to major federal programs and compliance with specific requirements applicable to nonmajor program transactions and have issued our reports thereon dated October 7, 1996. The results of our procedures disclosed no instances of noncompliance with those requirements related to Covenant House New Orleans' federal programs.

This report is intended solely for the information of the Finance Committee, Board of Directors, management of Covenant House New Orleans, and those agencies listed in the Combined Schedule of Federal Awards which provided funds to Covenant House New Orleans.

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

Ernst + Young LLP

October 7, 1996

Ernst & Young LLP ■ 787 Seventh Avenue New York, New York 10019 ■ Phone: 212 773 3000

Ms. Carolyn Larsen
Executive Director
Covenant House Texas
1111 Lovett Boulevard
Houston, TX 77006

Dear Ms. Larsen:

We have audited the combined financial statements of Covenant House and Affiliates (the "Organization") for the year ended June 30, 1996, and have issued our report thereon, which expressed reliance on other auditors, dated October 7, 1996.

We have also audited the Organization's compliance with general requirements of federal programs, specific requirements applicable to major federal programs and compliance with specific requirements applicable to nonmajor program transactions and have issued our reports thereon dated October 7, 1996. The results of our procedures disclosed no instances of noncompliance with those requirements related to Covenant House Texas' federal programs.

This report is intended solely for the information of the Finance Committee, Board of Directors, management of Covenant House Texas, and those agencies listed in the Combined Schedule of Federal Awards which provided funds to Covenant House Texas.

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

Ernst + Young LLP

October 7, 1996

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 1996:

Community Service Center activities	$ 34,000
Specified organization pilot program	24,875
For periods after June 30, 1996	10,000
	$ 68,875

9. Reclassification of Net Assets

Net assets of $42,000 were released from donor restrictions through the passage of specified time for which donations would be received.

10. Faith Community

Contributed services were provided by members of the Covenant House Faith Community (Community). Community members are full-time volunteers who commit themselves to a year of service to runaway and homeless youths. Room and board, $15 per day stipend, health insurance and reimbursement for other personal expenses are provided to Community members by Covenant House New Orleans. The expenses associated with Community members were approximately $99,000 for the year ended June 30, 1996, and are reported in the accompanying financial statements. The value of services performed by Community members was approximately $76,000 in 1996 and was not recognized in the accompanying financial statements.

11. Tax-Exempt Status

Covenant House New Orleans is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Covenant House New Orleans qualifies as a public charity.

6. Investments (continued)

Under Covenant House New Orleans' spending rate policy, all of the investment returns are appropriated to support current operations. The following schedule summarizes the investment return and its classification in the statement of activities for fiscal 1996:

	Unrestricted
Dividends and interest	$ 89,201
Net realized and unrealized gains	5,404
Return on long-term investments	94,605
Interest on short-term investments	14,263
Investment return designated for current operations	$ 108,868

7. Land, Building and Equipment

	June 30 1996
Land	$ 97,500
Building and improvements	817,889
Furniture and equipment	1,001,759
	1,917,148
Less accumulation depreciation and amortization	885,763
	$ 1,031,385

Covenant House New Orleans completed the construction and renovation of a community services center (the Project) which became operational in October 1994. The total cost of the Project was approximately $926,000, which was funded by a Special Project Grant of $486,000 from the City of New Orleans, a $75,000 Community Development Block Grant (CDBG) and Capital Appeal contributions from private donors.

Refundable advances included $75,000 received through the CDBG. This amount has been donated to Covenant House New Orleans in equal amounts over five years beginning October 1995 provided the facility is used for its intended purposes and not sold by Covenant House New Orleans. Grant revenue recognized in 1996 related to this grant totaled $15,000, resulting in a refundable advances balance of $60,000 at June 30, 1996.

6. Investments

Investments at June 30, 1996 consisted of:

	Long-Term Board-Designated Unrestricted	Total Market	Cost
Cash and cash equivalents	$ 984,013	$ 984,013	$ 984,013
Common stocks	158,827	158,827	119,971
Debt securities	428,007	428,007	432,277
Mutual funds	756,584	756,584	647,377
Other	347	347	347
	$ 2,327,778	$ 2,327,778	$ 2,183,985

In fiscal 1996, Covenant House New Orleans changed its method of recording marketable securities from cost to market value resulting from the early adoption of Statement of Financial Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* (SFAS 124). SFAS 124 requires not-for-profit organizations to record investments in all debt securities and marketable equity securities at fair value, with gains and losses (realized and unrealized) recorded in the statement of activities. The effect of this change in accounting principle as of June 30, 1995 was an increase in net assets of approximately $138,000. The effect on the change in net assets before the cumulative effect of a change in accounting principle for fiscal 1996 was an increase of approximately $6,000.

Marketable securities are recorded at fair market value as of June 30, 1996. The fair values for debt securities and marketable equity securities are based on quoted market prices.

3. Components of Programs and Supporting Services (continued)

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

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.

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.

4. Allocation of Joint Costs

The joint costs of certain informational mailings that contain an appeal for funds are allocated between the public education program and fund-raising. Approximately $85,000 of $197,141 total joint costs in 1996 were allocated to public education.

5. Contributions Receivable

At June 30, 1996, contributions receivable consisted substantially of unconditional promises to give and are due to be collected during the following fiscal years ending June 30:

1997	$ 57,537
1998	6,538
	$ 64,075

In accordance with *Government Auditing Standards*, we have also issued a report dated October 7, 1996 on our consideration of the Organization's internal control and a report dated October 7, 1996 on its compliance with laws and regulations.

Ernst + Young LLP

October 7, 1996

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

Covenant House and Affiliates

Year ended June 30, 1996

Covenant House New Orleans

Statement of Activities

Year ended June 30, 1996 with summarized
financial information for the year ended June 30, 1995

	Unrestricted	Temporarily Restricted	Total June 30 1996	1995
Contributions, revenue and reclassifications:				
Contributions:				
Contribution from Covenant House	$ 632,250	$ –	$ 632,250	$ 632,619
Contributions including wills and bequests totaling $22,105 in 1996	2,088,315	24,875	2,113,190	2,931,701
Grant income	746,432	–	746,432	598,694
Donated services and merchandise, including inventory adjustments	86,208	–	86,208	155,213
Special events revenue, net of direct costs of $11,803 in 1996	22,387	–	22,387	67,059
Total contributions	3,575,592	24,875	3,600,467	4,385,286
Revenue:				
Investment income	108,868	–	108,868	63,767
Other income	233,622	–	233,622	11,674
Total revenue	342,490	–	342,490	75,441
Total contributions and revenue	3,918,082	24,875	3,942,957	4,460,727
Reclassifications:				
Net assets released from restrictions	42,000	(42,000)	–	–
Total contributions, revenue and reclassifications	3,960,082	(17,125)	3,942,957	4,460,727
Expenses:				
Program services	3,197,701	–	3,197,701	2,869,431
Supporting services:				
Management and general	365,288	–	365,288	323,774
Fund-raising	571,229	–	571,229	502,996
Total supporting services	936,517	–	936,517	826,770
Total expenses	4,134,218	–	4,134,218	3,696,201
Changes in net assets before cumulative effect of a change in accounting principle	(174,136)	(17,125)	(191,261)	764,526
Cumulative effect of a change in accounting principle	138,387	–	138,387	–
Change in net assets	(35,749)	(17,125)	(52,874)	–
Net assets, at beginning of year	3,394,912	86,000	3,480,912	2,716,386
Net assets, at end of year	$ 3,359,163	$ 68,875	$ 3,428,038	$ 3,480,912

See accompanying notes.

Covenant House and Affiliates

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

Year ended June 30, 1996

Contents

Other Matters

Statement on Auditing Standards No. 61 also requires communications to the board of directors in the following areas:

- Sensitive accounting estimates.
- Significant audit adjustments.
- Other information in documents containing audited financial statements.
- Disagreements with management.
- Consultations with other accountants.
- Major issues discussed with management prior to retention.
- Difficulties encountered in dealing with management when performing the audit.
- Methods of accounting for significant unusual transactions and for controversial or emerging areas.

During the course of our audit, we did not encounter any circumstances and we are unaware of any items in any of these areas which require discussion with the board of directors.

This report is intended solely for the information and use of the board of directors.

Ernst + Young LLP

September 11, 1996

ERNST & YOUNG LLP

4200 One Shell Square
701 Poydras Street
New Orleans
Louisiana 70139

Phone: 504 581 4200

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 4-2-97

The Board of Directors
Covenant House New Orleans

We have audited, in accordance with generally accepted auditing standards, the financial statements of Covenant House New Orleans for the year ended June 30, 1996, and have issued our report thereon dated September 11, 1996.

Statement on Auditing Standards No. 61, *Communication With Audit Committees*, requires the independent auditor to communicate to the board of directors certain information regarding the scope and results of the audit to assist the committee in overseeing the financial reporting and disclosure process for which management is responsible. This letter summarizes the reporting requirements of this statement for our 1996 audit.

Auditors' Responsibility Under Generally Accepted Auditing Standards

Our audit, conducted in accordance with generally accepted auditing standards, is designed to provide reasonable, rather than absolute, assurance that the Covenant House New Orleans financial statements are free of material misstatement. These financial statements are the responsibility of management and it is our responsibility to express an opinion on these financial statements based on our audit results.

Significant Accounting Policies

The accounting principles followed by Covenant House New Orleans and the methods of applying these principles conform, in all material respects, with generally accepted accounting principles generally used by voluntary health and welfare organizations. The annual audited financial statements include a summary of these significant accounting policies. During the course of our audit, we noted no changes in significant accounting policies or their application other than those described below.

Adoption of or a Change in an Accounting Principle

In 1996, Covenant House New Orleans early adopted the Financial Accounting Standards Board Statement (FAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. The effect of adopting FAS 124 resulted in an increase to net assets of approximately $138,000 at July 1, 1995.

12. Related Party Transactions

Covenant House provides financial support as well as management and organizational support for its organizations and also conducts fund-raising activities for its programs. Contributions and pledges received directly by Covenant House are allocated and recorded in the accounts of the entity designated by the donor. In fiscal 1996, Covenant House New Orleans received support contributions from Covenant House totaling $632,000. In addition, Covenant House New Orleans paid approximately $476,000 in 1996 to Covenant House for fund-raising expenses.

Covenant House provides certain of its affiliates with insurance and computer access services. Covenant House has allocated expenses of approximately $56,000 in 1996 related to such services to Covenant House New Orleans.

Covenant House New Orleans leases its program facility from Covenant House on a month-to-month basis. Rent paid to Covenant House amounted to approximately $208,000 in fiscal year 1996.

Covenant House New Orleans participates in a defined benefit pension plan covering substantially all Covenant House employees. Total pension cost is allocated to Covenant House New Orleans from Covenant House. Pension costs were approximately $20,000 in 1996.

The amounts due to Covenant House at June 30, 1996 resulted from the transactions described above.

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Financial Statements

Covenant House New Orleans

Year ended June 30, 1996 with summarized financial information for the year ended June 30, 1995 with Report of Independent Auditors

COVENANT HOUSE

ERNST & YOUNG

Covenant House New Orleans

Financial Statements

Year ended June 30, 1996 with summarized
financial information for the year ended June 30, 1995

Contents

ERNST & YOUNG LLP ■ 787 Seventh Avenue New York, New York 10019 ■ Phone: 212 773 3000

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, 1996, 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 financial statements based on our audit. We did not audit the financial statements of Covenant House Alaska, Covenant House Toronto and Fundacion Casa Alianza Mexico, I.A.P. which statements reflect total assets of $12,348,233 as of June 30, 1996 and total public support and revenues of $7,731,877 for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for those organizations, is based solely on the reports of the other auditors.

We conducted our audit over the entities receiving federal and State of New Jersey awards in accordance with generally accepted auditing standards and *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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House and Affiliates as of June 30, 1996, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the accompanying financial statements, during fiscal 1996 the Organization changed its method of accounting for investments by adopting Statement of Financial Accounting Standards No. 124.