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Financial Statements

Covenant House New Orleans

Year ended June 30, 1997 with summarized  
financial information for the year ended June 30, 1996  
with Report of Independent Auditors

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Legislative Auditor

# Covenant House New Orleans

## Financial Statements

Year ended June 30, 1997 with summarized  
financial information for the year ended June 30, 1996

### Contents

|                                       |   |
|---------------------------------------|---|
| Report of Independent Auditors.....   | 1 |
| Audited Financial Statements:         |   |
| Statement of Financial Position.....  | 2 |
| Statement of Activities.....          | 3 |
| Statement of Functional Expenses..... | 4 |
| Statement of Cash Flows.....          | 6 |
| Notes to Financial Statements.....    | 7 |

## 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, 1997, 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 statements 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, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.



September 17, 1997

Covenant House New Orleans

Statement of Financial Position

|  | June 30             |                     |
|--|---------------------|---------------------|
|  | 1997                | 1996                |
| <b>Assets</b>  |                     |                     |
| Cash and cash equivalents  | \$ 119,357          | \$ 49,306           |
| Contributions receivable - short-term  | 48,072              | 57,537              |
| Grants receivable  | 138,588             | 178,796             |
| Other receivables  | 2,688               | 4,793               |
| Donated inventory  | 18,687              | 10,769              |
| Prepaid expenses and other assets  | 59,845              | 35,873              |
| Real estate held for resale  | 28,000              | 20,000              |
| Land, building and equipment, net of accumulated depreciation of \$96,870 as of 1997 and \$85,763 as of 1996 | 996,613             | 1,031,585           |
| Contributions receivable - long-term   | -                   | 6,538               |
| Long-term investments  | 2,399,364           | 2,327,778           |
| <b>Total assets</b>  | <b>\$ 3,782,389</b> | <b>\$ 3,725,769</b> |
| <b>Liabilities and net assets</b>  |                     |                     |
| <b>Liabilities:</b>  |                     |                     |
| Accounts payable and accrued expenses  | \$ 189,843          | \$ 161,843          |
| Refundable advances  | 48,380              | 60,000              |
| Due to parent  | 117,439             | 75,888              |
| <b>Total liabilities</b>   | <b>355,662</b>      | <b>297,731</b>      |
| <b>Net assets:</b>   |                     |                     |
| Unrestricted:  |                     |                     |
| Board designated   | 2,399,364           | 2,327,778           |
| Investment in land, building and equipment   | 996,613             | 1,031,585           |
| <b>Total unrestricted net assets</b>   | <b>3,395,977</b>    | <b>3,359,363</b>    |
| Temporarily restricted   | 24,569              | 68,873              |
| <b>Total net assets</b>  | <b>3,420,546</b>    | <b>3,428,236</b>    |
| <b>Total liabilities and net assets</b>  | <b>\$ 3,782,389</b> | <b>\$ 3,725,769</b> |

For accompanying notes.

Corcoran House New Orleans

Statement of Activities

Year ended June 30, 1997 with adjustments  
 Financial information for the year ended June 30, 1996

|  | Unrestricted        | Temporarily<br>Restricted | Total<br>June 30    |                     |
|--|---------------------|---------------------------|---------------------|---------------------|
|  | 1997                | 1997                      | 1997                | 1996                |
| <b>Contributions, revenue and reclassifications:</b>   |                     |                           |                     |                     |
| <b>Contributions:</b>  |                     |                           |                     |                     |
| Contributions from Corcoran House  | \$ 628,612          | \$ -                      | \$ 628,612          | \$ 612,293          |
| Contributions from individuals, foundations<br>and corporations including legacies and<br>bequests totaling \$31,179 in 1997 | 1,601,388           | 15,485                    | 1,616,873           | 1,313,190           |
| Government grants and contracts  | 758,002             | -                         | 758,002             | 746,412             |
| Costs based services and merchandise,<br>including inventory adjustments   | 182,311             | -                         | 182,311             | 88,206              |
| Special events revenue, net of direct costs of<br>\$26,138 in 1997   | 48,971              | -                         | 48,971              | 12,587              |
| <b>Total contributions</b>   | <b>4,804,794</b>    | <b>15,485</b>             | <b>4,820,279</b>    | <b>3,603,687</b>    |
| <b>Revenue:</b>  |                     |                           |                     |                     |
| Investment income  | 398,883             | -                         | 398,883             | 512,775             |
| Other income   | 16,646              | -                         | 16,646              | 16,775              |
| <b>Total revenue</b>   | <b>415,529</b>      | <b>-</b>                  | <b>415,529</b>      | <b>529,550</b>      |
| <b>Total contributions and revenue</b>   | <b>4,319,323</b>    | <b>15,485</b>             | <b>4,343,808</b>    | <b>3,942,937</b>    |
| <b>Reclassifications:</b>  |                     |                           |                     |                     |
| Net assets released from restrictions  | 27,880              | (27,880)                  | -                   | -                   |
| <b>Total contributions, revenue and reclassifications</b>  | <b>4,378,123</b>    | <b>(14,312)</b>           | <b>4,343,808</b>    | <b>3,942,937</b>    |
| <b>Expenses:</b>   |                     |                           |                     |                     |
| Program services   | 3,331,612           | -                         | 3,331,612           | 3,187,791           |
| Supporting services:   |                     |                           |                     |                     |
| Management and general   | 415,489             | -                         | 415,489             | 365,288             |
| Fundraising  | 574,288             | -                         | 574,288             | 571,229             |
| <b>Total supporting services</b>   | <b>1,009,777</b>    | <b>-</b>                  | <b>1,009,777</b>    | <b>936,517</b>      |
| <b>Total expenses</b>  | <b>4,341,389</b>    | <b>-</b>                  | <b>4,341,389</b>    | <b>4,124,315</b>    |
| <b>Change in net assets before cumulative effect of a<br/>change in accounting principle</b>                                 | <b>36,734</b>       | <b>(14,312)</b>           | <b>2,422</b>        | <b>(181,261)</b>    |
| <b>Cumulative effect of a change in accounting<br/>principle</b>   | <b>-</b>            | <b>-</b>                  | <b>-</b>            | <b>181,261</b>      |
| <b>Change in net assets</b>  | <b>36,734</b>       | <b>(14,312)</b>           | <b>2,422</b>        | <b>(13,744)</b>     |
| <b>Net assets, at beginning of year</b>  | <b>3,399,163</b>    | <b>68,879</b>             | <b>3,428,038</b>    | <b>3,441,782</b>    |
| <b>Net assets, at end of year</b>  | <b>\$ 3,395,517</b> | <b>\$ 54,567</b>          | <b>\$ 3,438,977</b> | <b>\$ 3,428,038</b> |

See accompanying notes.



| Public<br>Recreation | Total<br>Programs   | Supporting Services          |                   | Total<br>Expenses   |                     |
|----------------------|---------------------|------------------------------|-------------------|---------------------|---------------------|
|                      |                     | Management<br>and<br>General | Fund-<br>Raising  | 2007                | 1998                |
| \$ 31,823            | \$ 1,988,664        | \$ 288,247                   | \$ 144,825        | \$ 1,998,136        | \$ 1,884,029        |
| 2,792                | 189,681             | 19,494                       | 13,599            | 193,748             | 186,136             |
| 3,304                | 214,136             | 29,448                       | 19,881            | 263,575             | 214,921             |
| <u>38,919</u>        | <u>1,998,882</u>    | <u>337,189</u>               | <u>178,315</u>    | <u>2,354,459</u>    | <u>2,175,086</u>    |
| --                   | 87,888              | 9,763                        | --                | 97,612              | 89,173              |
| 73                   | 364                 | 73                           | 49                | 486                 | 1,618               |
| --                   | 23,484              | --                           | --                | 23,484              | 16,873              |
| 13                   | 85,674              | 849                          | 41,718            | 138,233             | 78,128              |
| --                   | --                  | 38,400                       | --                | 38,400              | 23,578              |
| 324                  | 69,681              | 18,027                       | 3,818             | 79,146              | 64,811              |
| 884                  | 23,883              | 15,328                       | 4,363             | 42,784              | 42,708              |
| 73,734               | 79,483              | 7,029                        | 251,946           | 538,646             | 447,824             |
| 148                  | 133,681             | 19,280                       | 2,182             | 146,074             | 141,743             |
| --                   | 37,994              | 4,688                        | 1,230             | 43,254              | 62,791              |
| --                   | --                  | --                           | --                | --                  | 3,080               |
| --                   | 113,484             | 27,182                       | 9,811             | 146,477             | 266,654             |
| 131                  | 36,432              | 9,888                        | 2,984             | 48,408              | 8,751               |
| <u>1,287</u>         | <u>46,619</u>       | <u>4,868</u>                 | <u>2,673</u>      | <u>47,769</u>       | <u>26,377</u>       |
| --                   | 112,217             | 1,846                        | --                | 114,173             | 111,368             |
| --                   | 13,811              | --                           | --                | 13,811              | 17,232              |
| --                   | 2,845               | --                           | --                | 2,845               | --                  |
| --                   | 24,933              | 42                           | 18                | 25,098              | 38,089              |
| --                   | 18,981              | 285                          | --                | 19,267              | 12,039              |
| --                   | 6,844               | 1,841                        | 92                | 8,777               | 10,298              |
| <u>38,849</u>        | <u>122,786</u>      | <u>17,194</u>                | <u>68,927</u>     | <u>288,883</u>      | <u>112,966</u>      |
| 169                  | 1,867               | 289                          | 271               | 1,697               | 6,481               |
| 91                   | 9,108               | 493                          | 191               | 9,798               | 3,083               |
| 11                   | 3,431               | 824                          | 285               | 4,218               | 2,680               |
| 836                  | 38,318              | 4,848                        | 1,478             | 44,898              | 37,084              |
| 189                  | 77,344              | 708                          | 2,680             | 81,182              | 73,227              |
| 288                  | 12,593              | 3,818                        | 32,171            | 48,292              | 20,688              |
| --                   | --                  | <u>11,821</u>                | <u>424</u>        | <u>12,985</u>       | <u>21,613</u>       |
| 154,876              | 1,248,279           | 428,181                      | 691,247           | 4,278,677           | 4,668,980           |
| 151                  | 85,333              | 6,938                        | 2,588             | 94,021              | 83,834              |
| <u>154,408</u>       | <u>1,331,612</u>    | <u>435,119</u>               | <u>693,835</u>    | <u>4,370,788</u>    | <u>4,752,814</u>    |
| --                   | --                  | --                           | <u>(18,328)</u>   | <u>(29,389)</u>     | <u>(11,934)</u>     |
| <u>\$ 154,408</u>    | <u>\$ 1,331,612</u> | <u>\$ 435,119</u>            | <u>\$ 574,788</u> | <u>\$ 4,341,399</u> | <u>\$ 4,740,880</u> |

For accompanying notes.

**Covenant House New Orleans**

**Statement of Cash Flows**

|  | <b>Year ended June 30</b> |             |
|--|---------------------------|-------------|
|  | <b>1997</b>               | <b>1996</b> |
| <b>Operating activities</b>  |                           |             |
| Increase (decrease) in net assets  | \$ 2,439                  | \$ (52,874) |
| 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  | 94,031                    | 85,036      |
| Net unrealized gain on investments   | (126,589)                 | (5,404)     |
| Loss on disposition of equipment   | -                         | 283         |
| Contributed equipment  | (33,975)                  | (9,300)     |
| Change in operating assets and liabilities:  |                           |             |
| Receivables  | 67,881                    | 19,688      |
| Contributed inventory  | 803                       | 6,197       |
| Prepaid expenses and other assets  | (37,172)                  | (8,792)     |
| Accounts payable and accrued expenses  | 37,301                    | (56,925)    |
| Refundable advances  | (14,708)                  | (21,900)    |
| Due to parent  | 41,653                    | 16,276      |
| Net cash provided by (used in) operating activities  | 96,182                    | (181,370)   |
| <b>Investing activities</b>  |                           |             |
| Acquisition of land, building and equipment  | (58,284)                  | (192,065)   |
| Sale of real estate held for resale  | -                         | 40,000      |
| Purchases of long-term investments   | (708,828)                 | (843,132)   |
| Sales of long-term investments   | 763,811                   | 1,848,722   |
| Net cash provided by investing activities  | (93,301)                  | (146,475)   |
| Net increase (decrease) in cash and cash equivalents   | 69,881                    | (57,845)    |
| Cash and cash equivalents at beginning of year   | 49,866                    | 87,351      |
| Cash and cash equivalents at end of year   | \$ 119,747                | \$ 29,506   |

See accompanying notes.



## Covenant House New Orleans

### Notes to Financial Statements

June 30, 1997

#### 1. Organization

Covenant House New Orleans is a non-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:

Asociacion Casa Alianza (Costa Rica)  
Casa Alianza de Honduras  
Covenant House Alaska  
Covenant House California  
Covenant House Florida  
Covenant House Michigan  
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 1996

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, 1996, from which the summarized information was derived.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 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 all unrestricted net assets of Covenant House New Orleans, with the exception of investment in land, building and equipment, for long-term investment purposes and shielded from operational deficiencies.

##### 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.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 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 the 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.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 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 restricted, except where the instructions of the donor specify otherwise.

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 4 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.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 1. 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 premises 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.

##### Reclassifications

Certain items included in the 1996 financial statements have been reclassified to conform to the 1997 financial statement presentation.

#### 3. Components of Programs and Supporting Services

The *Shelter and Crisis* 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.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 3. Components of Programs and Supporting Services (continued)

*Right 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.

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 \$65,000 of \$177,000 total joint costs in 1997 were allocated to public education.

#### 5. Contributions Receivable

As June 30, 1997, contributions receivable consisted substantially of unconditional promises to give of approximately \$48,000 and are due to be collected within one year.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 4. Investments

Investments at June 30, 1997 consisted of:

|                           | Long-Term<br>Bond-<br>Designated<br>Unrestricted<br>(Market) | Cost         |
|---------------------------|--|--------------|
| Cash and cash equivalents | \$ 508,238   | \$ 508,238   |
| Common stocks             | 19,579   | 30,869       |
| Debt securities           | 766,979  | 768,864      |
| Mutual funds              | 1,104,268  | 832,052      |
|                           | \$ 2,399,064   | \$ 2,140,023 |

In fiscal 1994, 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 July 1, 1993 was an increase in net assets of approximately \$138,000.

The fair values for common stocks, debt securities and mutual funds are based on quoted market prices.

The following schedule summarizes the investment return and its classification in the statement of activities for fiscal 1997:

|   |                     |
|---|---------------------|
|   | <b>Unrestricted</b> |
| Dividends and interest                              | \$ 306,046          |
| Net realized and unrealized gains                   | 192,837             |
| Investment return designated for current operations | \$ 498,883          |

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 7. Land, Building and Equipment

|   | June 30<br>1997 |
|---|-----------------|
| Land  | \$ 100,500      |
| Building and improvements                       | 846,887         |
| Furniture and equipment                         | 1,010,086       |
|   | 1,957,473       |
| Less accumulation depreciation and amortization | (960,870)       |
|   | \$ 996,603      |

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 \$484,000 from the City of New Orleans, a \$75,000 Community Development Block Grant (CDBG) and Capital Appeal contributions from private donors. Reliable 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 1997 related to this grant totaled \$15,000.

#### 8. Government Grants

Grants receivable of approximately \$131,000 are expected to be received by the Organization during fiscal 1998.

During fiscal 1997, the Organization received funding under grants as follows:

|  |            |
|--|------------|
| U. S. Department of Housing and Urban Development      | \$ 560,094 |
| U. S. Department of Health and Human Services          | 139,513    |
| U. S. Department of Agriculture                        | 37,437     |
| U. S. Department of Education                          | 9,132      |
| Federal Emergency Management Agency                    | 1,384      |
| State/Local Private Agencies                           | 2,540      |
| City of New Orleans -Community Development Block Grant | 15,000     |
|  | \$ 765,100 |



## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 9. Temporarily Restricted Net Assets

Temporarily restricted net assets of approximately \$35,000 are restricted for the use of specified organization programs.

#### 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 youth. 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 \$93,000 for the year ended June 30, 1997, and are reported in the accompanying financial statements. The value of services performed by Community members was approximately \$21,000 in 1997 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(c) of the Internal Revenue Code as an organization described in Section 501(c)(24). Covenant House New Orleans qualifies as a public charity.

#### 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 promises to give directly by Covenant House are allocated and recorded in the accounts of the entity designated by the donor. In fiscal 1997, Covenant House New Orleans received support contributions from Covenant House totaling \$628,000. In addition, Covenant House New Orleans paid approximately \$452,000 in 1997 to Covenant House for fund-raising expenses.

Covenant House provides certain of its affiliates with insurance, computer access services and data software and hardware maintenance. Covenant House has allocated expenses of approximately \$68,000 in 1997 related to such services to Covenant House New Orleans.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 12. Related Party Transactions (continued)

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 1997.

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 \$50,000 in 1997.

The amounts due to Covenant House at June 30, 1997 resulted from the transactions described above.

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, 1997, and have issued our report thereon dated September 17, 1997.

Statement on Auditing Standards No. 63, *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 1997 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 those 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 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.

- The adoption of, or a change in, an accounting principle.
- 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 17, 1997

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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

Governor House and Affiliates

Year ended June 30, 1997

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or reviewed, certified and otherwise made public pursuant to the regulations 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 \_\_\_\_\_

**ERNST & YOUNG LLP**

## Covenant House and Affiliates

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

Year ended June 30, 1997

#### Contents

|  |    |
|--|----|
| Report of Independent Auditors.....  | 1  |
| <b>Combined Financial Statements</b>   |    |
| Combined Statement of Financial Position.....  | 3  |
| Combined Statement of Activities.....  | 4  |
| Combined Statement of Functional Expenses.....   | 5  |
| Combined Statement of Cash Flows.....  | 6  |
| Notes to Combined Financial Statements.....  | 7  |
| <b>Other Financial Information</b>   |    |
| Combined Schedule of Expenditures of Federal Awards.....   | 22 |
| Schedule of State of New Jersey Assistance.....  | 28 |
| <b>Audit Reports and Schedule Related to<br/>Office of Management and Budget Circular A-133</b>  |    |
| <b>Report of Independent Auditors on Compliance and on Internal Control<br/>Over Financial Reporting Based on an Audit of the Financial Statements<br/>in Accordance with Government Auditing Standards.....</b> |    |
|  | 29 |
| <b>Report of Independent Auditors on Compliance with Requirements<br/>Applicable to each Major Program and Internal Control Over<br/>Compliance in Accordance with OMB Circular A-133.....</b>                   |    |
|  | 31 |
| Schedule of Findings and Questioned Costs.....   | 33 |

## 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, 1997, 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 Toronto which statements reflect total assets of \$11,487,545 as of June 30, 1997 and total contributions and revenues of \$4,977,880 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for that organization, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These 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 report 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, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 1997 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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, 1997, taken as a whole. The accompanying Combined Schedule of Expenditures of Federal Awards for the year ended June 30, 1997 and Schedule of State of New Jersey Assistance for the year ended June 30, 1997 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the State of New Jersey 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, 1997 and, in our opinion, based on our audit and the report of other auditors, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

*Ernst + Young LLP*

September 17, 1997



Covenant House and Affiliates

Combined Statement of Financial Position

|   | June 30               |                       |
|---|-----------------------|-----------------------|
|   | 1997                  | 1996                  |
| <b>Assets</b>   |                       |                       |
| Cash and cash equivalents   | \$ 16,898,418         | \$ 17,895,967         |
| Short-term investments (Note 7)                                     | 4,425,248             | 2,481,632             |
| Short-term contributions receivable (Note 4)                        | 1,804,796             | 1,517,633             |
| Grants receivable (Note 6)  | 1,499,033             | 1,213,130             |
| Other receivables   | 942,076               | 1,028,311             |
| Inventory   | 779,561               | 856,289               |
| Prepaid expenses (Note 14)  | 1,315,721             | 1,898,162             |
| Property held for sale, net   | 881,987               | 803,887               |
| Property, plant and equipment, net (Note 8)                         | 96,721,079            | 53,796,866            |
| Long-term contributions receivable (Notes 5 and 10)                 | 1,798,065             | 1,283,693             |
| Long-term investments (Notes 7 and 10)                              | 43,378,877            | 32,277,974            |
| Other assets  | 662,282               | 625,745               |
| <b>Total assets</b>   | <b>\$ 129,908,880</b> | <b>\$ 114,882,427</b> |
| <b>Liabilities and net assets</b>                                   |                       |                       |
| Accounts payable, accrued expenses and refundable advances          | \$ 3,172,949          | \$ 6,983,334          |
| Amortization payable (Note 10)                                      | 1,542,892             | 1,111,284             |
| Debt obligations (Note 8)   | 58,466                | 135,747               |
| <b>Total liabilities</b>  | <b>\$ 4,774,307</b>   | <b>\$ 8,230,365</b>   |
| <b>Commitments and contingencies</b><br>(Notes 6, 8, 17, 19 and 20) |                       |                       |
| <b>Net assets:</b>  |                       |                       |
| <b>Unrestricted:</b>  |                       |                       |
| Unassigned  | 19,267,276            | 18,422,081            |
| Investment in property, plant and equipment                         | 87,475,899            | 54,922,275            |
| Board designated  | 37,166,749            | 27,168,582            |
| Accumulated translation adjustments                                 | (1,199,915)           | (1,844,662)           |
| <b>Total unrestricted</b>   | <b>112,609,009</b>    | <b>98,568,276</b>     |
| Temporarily restricted (Note 12)                                    | 2,863,536             | 2,804,938             |
| Permanently restricted (Note 11)                                    | 5,821,447             | 4,309,147             |
| <b>Total net assets</b>   | <b>120,294,002</b>    | <b>105,672,361</b>    |
| <b>Total liabilities and net assets</b>                             | <b>\$ 129,908,880</b> | <b>\$ 114,882,427</b> |

See accompanying notes

## Covenant House and Affiliates

### Combined Statement of Activities

Year ended June 30, 1997 with summarized financial information  
for the year-ended June 30, 1996

|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |                    |
|--|---------------------|---------------------------|---------------------------|---------------------|--------------------|
|  | 1997                | 1997                      | 1997                      | 1997                | 1996               |
| <b>Contributions, revenue and reallocations:</b>   |                     |                           |                           |                     |                    |
| Contributions from individuals, foundations<br>and corporations, including legacies and<br>bequests of \$4,764,808 (\$2,046,047 in 1996) | \$ 76,588,134       | \$ 1,177,637              | \$ --                     | \$ 76,765,771       | \$ 47,632,348      |
| Contributed services and materials   | 1,640,276           | --                        | --                        | 1,640,276           | 1,649,737          |
| Contributed goods and services   | 8,079,713           | 19,669                    | --                        | 8,114,382           | 8,846,470          |
| Special events income  | \$1,032,572         | --                        | --                        | 1,032,572           | --                 |
| Less direct costs of events  | (888,832)           | --                        | --                        | (888,832)           | --                 |
| Net special events income  | 143,740             | 26,000                    | --                        | 170,740             | 1,796,307          |
| Net special reimbursements   | 1,122,111           | 26,000                    | --                        | 1,148,111           | --                 |
| <b>Total contributions</b>   | <b>86,752,134</b>   | <b>1,229,236</b>          | <b>--</b>                 | <b>87,981,370</b>   | <b>50,478,655</b>  |
| <b>Revenues:</b>   |                     |                           |                           |                     |                    |
| Investment income  | 2,668,421           | 86,876                    | --                        | 2,755,297           | 2,743,769          |
| Interest and dividends   | 1,846,634           | --                        | --                        | 1,846,634           | 1,820,482          |
| Net unrealized gains   | (82,664)            | --                        | --                        | (82,664)            | 643,418            |
| Net realized gains   | 132,657             | (19,867)                  | 71,300                    | 173,090             | 26,490             |
| Change in value of split interest agreements   | 1,218,782           | 1,300                     | --                        | 1,220,082           | 1,417,714          |
| Other income and gifts   | \$ 248,899          | 75,220                    | 74,400                    | \$ 398,519          | \$ 471,711         |
| <b>Total revenues</b>  | <b>4,874,629</b>    | <b>132,529</b>            | <b>71,700</b>             | <b>5,078,858</b>    | <b>5,355,374</b>   |
| <b>Total contributions, revenue and<br/>reallocations</b>  | <b>91,626,763</b>   | <b>1,361,765</b>          | <b>71,700</b>             | <b>93,059,228</b>   | <b>55,834,029</b>  |
| <b>Reallocations (Note A4)</b>   |                     |                           |                           |                     |                    |
| Net unrestricted from restricted   | 1,280,133           | (1,280,133)               | --                        | --                  | --                 |
| <b>Total contributions, revenue and<br/>reallocations</b>  | <b>92,906,896</b>   | <b>1,081,632</b>          | <b>71,700</b>             | <b>94,059,228</b>   | <b>55,834,029</b>  |
| <b>Expenses (Notes C, D and F):</b>  |                     |                           |                           |                     |                    |
| Program services   | 26,776,061          | --                        | --                        | 26,776,061          | 26,814,638         |
| Supporting services  | 7,967,156           | --                        | --                        | 7,967,156           | 7,649,804          |
| Administrative and general   | 18,739,713          | --                        | --                        | 18,739,713          | 20,113,961         |
| Fund raising   | 2,222,582           | --                        | --                        | 2,222,582           | 1,761,303          |
| <b>Total supporting services</b>   | <b>28,959,553</b>   | <b>--</b>                 | <b>--</b>                 | <b>28,959,553</b>   | <b>30,339,706</b>  |
| <b>Total expenses</b>  | <b>55,735,614</b>   | <b>--</b>                 | <b>--</b>                 | <b>55,735,614</b>   | <b>57,154,344</b>  |
| Current year translation adjustments (Note E)  | 112,122             | --                        | --                        | 112,122             | 177,000            |
| <b>Total expenses and translation adjustments</b>  | <b>55,847,736</b>   | <b>--</b>                 | <b>--</b>                 | <b>55,847,736</b>   | <b>57,331,344</b>  |
| Change in net assets before allocation<br>effect of change in accounting principles  | 36,779,032          | 18,077                    | 71,300                    | 36,928,409          | (6,877,319)        |
| Cumulative effect of change in accounting<br>principles  | --                  | --                        | 100,000                   | 100,000             | --                 |
| Split interest agreements (Note D)   | --                  | --                        | --                        | --                  | (671,111)          |
| Other  | --                  | --                        | --                        | --                  | --                 |
| <b>Change in net assets</b>  | <b>36,779,032</b>   | <b>18,077</b>             | <b>100,000</b>            | <b>37,017,109</b>   | <b>(7,548,430)</b> |
| Net assets-beginning of year   | \$9,469,676         | \$ 864,919                | \$ 300,147                | \$10,634,742        | \$9,183,812        |
| Net assets-end of year   | <b>\$46,248,668</b> | <b>\$ 882,996</b>         | <b>\$ 300,147</b>         | <b>\$47,431,811</b> | <b>\$1,635,382</b> |

See accompanying notes.

Contract-Bound Affiliates

Conditional Disclosure of Financial Expenses

See table 10.100 (continued) for additional information for the period from 1994 to 1998

| Year | Region |       |      |      |         |           |           |         |          |       | Total |
|------|--------|-------|------|------|---------|-----------|-----------|---------|----------|-------|-------|
|      | North  | South | West | East | Midwest | Southwest | Northwest | Central | Mountain | Other |       |
| 1994 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 1995 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 1996 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 1997 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 1998 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 1999 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2000 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2001 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2002 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2003 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2004 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2005 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2006 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2007 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2008 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2009 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2010 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2011 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2012 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2013 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2014 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2015 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2016 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2017 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2018 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2019 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2020 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2021 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2022 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2023 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2024 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2025 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2026 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2027 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2028 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2029 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |
| 2030 | 100    | 100   | 100  | 100  | 100     | 100       | 100       | 100     | 100      | 100   | 100   |

Continued on next page

**Coverport House and Affiliates**

**Combined Statement of Cash Flows**  
(Note 2)

|  | <b>Year ended June 30</b> |                      |
|--|---------------------------|----------------------|
|  | <b>1997</b>               | <b>1996</b>          |
| <b>Cash flows from operating activities</b>  |                           |                      |
| Change in net assets   | \$ 14,862,680             | \$ 10,073,169        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                           |                      |
| Cumulative effect of change in accounting principles                                       | (896,088)                 | (687,513)            |
| Cumulative translation adjustment  | 118,883                   | (373,008)            |
| Contribution of investments  | (21,668)                  | (308,408)            |
| Contributed-occupancy costs  | 22,048                    | 26,605               |
| Contributions required for building construction   | (444,888)                 | (1,623,206)          |
| Unrealized and realized gains on investments   | (2,641,798)               | (745,588)            |
| Net cash contributions under split-interest agreements                                     | 871,982                   | -                    |
| Change in value of split-interest agreements   | (47,286)                  | (26,698)             |
| Depreciation and amortization  | 2,780,540                 | 2,281,119            |
| Permanently removed contributions  | -                         | (283,078)            |
| Contributed inventory  | 73,268                    | 33,137               |
| Contributed property, plant and equipment  | (33,975)                  | 83,088               |
| Gain on sale of fixed assets and property held for sale                                    | (131,703)                 | (23,774)             |
| Changes in operating assets and liabilities:   |                           |                      |
| Contributions receivable   | (739,628)                 | (733,898)            |
| Debits receivable  | (284,895)                 | 711,628              |
| Other receivables  | 182,787                   | (483,884)            |
| Inventory  | 32,187                    | -                    |
| Prepaid expenses   | (187,888)                 | 128,517              |
| Other assets   | (29,228)                  | 62,278               |
| Accounts payable, accrued expenses and refundable advances                                 | (124,889)                 | 1,288,113            |
| Accrued payable  | 268,931                   | 445,881              |
| <b>Net cash provided by operating activities</b>   | <b>(3,242,441)</b>        | <b>11,211,283</b>    |
| <b>Cash flows from investing activities</b>  |                           |                      |
| Purchases of investments, net  | (8,882,783)               | (249,182)            |
| Purchases of property, plant and equipment and construction in progress                    | (6,216,289)               | (13,430,833)         |
| Proceeds from sale of property held for sale   | 183,863                   | 4,829,880            |
| Proceeds from sale of property, plant and equipment  | 38,784                    | 60,141               |
| <b>Net cash used in investing activities</b>   | <b>(14,886,217)</b>       | <b>(8,889,217)</b>   |
| <b>Cash flows from financing activities</b>  |                           |                      |
| Contributions received for building construction   | 602,380                   | 2,622,206            |
| Payments of long-term debt and other debt obligations                                      | (66,281)                  | (25,284)             |
| Permanently removed contributions  | -                         | 59,870               |
| <b>Net cash provided by financing activities</b>   | <b>536,099</b>            | <b>2,656,792</b>     |
| <b>Net (decrease) increase in cash and cash equivalents</b>                                | <b>(1,279,877)</b>        | <b>1,917,378</b>     |
| <b>Cash and cash equivalents at beginning of year</b>                                      | <b>17,088,967</b>         | <b>15,888,287</b>    |
| <b>Cash and cash equivalents at end of year</b>  | <b>\$ 15,809,090</b>      | <b>\$ 17,805,665</b> |
| <b>Supplemental information</b>  |                           |                      |
| Interest paid  | \$ 1,500                  | \$ 24,000            |

See accompanying notes.

## Covenant House and Affiliates

### Notes to Combined Financial Statements

June 30, 1997

#### 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 48,000 runaway and homeless youth during fiscal 1997. In addition, Covenant House offers a national toll-free crisis intervention hotline.

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

##### Under 21

Covenant House Alaska  
Covenant House California  
Covenant House Florida  
Covenant House Michigan  
Covenant House New Jersey  
Covenant House New Orleans  
Covenant House Texas  
Covenant House Washington, D.C.  
Covenant House Western Avenue  
Testament

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  
Asociación Casa Alianza (Guatemala)  
Casa Alianza De Honduras  
Fundación Casa Alianza Mexico, I.A.P.

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

## Coventry House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 1. Organization and Basis of Combination (continued)

##### Basis of Combination

The combined financial statements include the accounts of Coventry House, its aforementioned affiliated organizations and the entities, including trusts, for which Coventry 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

During 1997, Coventry House changed its method of accounting for interests in perpetual trusts resulting from the adoption of the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, *Not-for-Profit Organizations*. The cumulative effect of this change in accounting principle was to increase permanently restricted net assets by \$150,000 as of July 1, 1996. The effect on the change in net assets before cumulative effect of change in accounting principle for fiscal 1997 was an increase of \$74,500.

##### Fund Accounting and Net Asset Classifications

To ensure compliance with restrictions placed on the resources available to Coventry House, Coventry 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 Coventry 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 Coventry House to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of Coventry House.

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

- 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.

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

## **Covenant House and Affiliates**

### **Notes to Combined Financial Statements (continued)**

#### **1. Summary of Significant Accounting Policies (continued)**

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Covenant House reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

#### **Property, Plant and Equipment**

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

Covenant House is the lessee of certain equipment under capital leases expiring in various years through fiscal 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 combined financial statements.

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



## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Cash and Cash Equivalents

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

##### 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 these 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 unsecured and are not temporarily or permanently restricted are classified as short-term. All other investments are classified as long-term.

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

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

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

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 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).

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

See Note 7 for additional information regarding investments.

#### Advertising Expenses

Advertising expense consists primarily of the cost of public service announcements and is recorded in the period such announcements are first made. Advertising expense for fiscal 1997 was approximately \$208,000.

#### Summarized Financial Information for Fiscal 1996 and Reclassifications

The accompanying combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Covenant House's financial statements for the year ended June 30, 1996, from which the summarized information was derived.

Certain 1996 amounts have been reclassified to conform to the current fiscal year presentation.

#### A. Components of Program and Supporting Services

The *Shelter and Crisis Care* program provides crisis care, shelter, food, clothing, counseling and legal advice to abandoned and runaway youths through Covenant House programs in North and Central America.

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 3. Components of Program and Supporting Services (continued)

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

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

*Hotline* 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.

*Right 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 *Continuity 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 Educator* program informs and educates the public on how to identify potential "runaway" and "thruway" 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 making 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.

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 4. Allocation of Joint Costs

The joint costs of certain informational mailings that contain an appeal for funds are allocated between the public education program and fund-raising. Of the total joint costs of approximately \$5,518,000 incurred in 1997, approximately \$1,578,000 was allocated to public education.

#### 5. Contributions Receivable

At June 30, 1997, contributions receivable, net of estimated uncollectible amounts, and discounted to present value, are due to be collected as follows:

|                      |             |
|----------------------|-------------|
| One year             | \$1,804,756 |
| One to five years    | 423,590     |
| More than five years | 1,372,165   |
|                      | <hr/>       |
|                      | \$3,600,511 |

Included in contributions receivable is approximately \$1,034,000, 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 \$1,498,833 at June 30, 1997 are expected to be received by the Organization during fiscal 1998.

During fiscal 1997, 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, 1997, Covenant House had been approved for a number of government cost reimbursable grants in which conditions stipulated in the grant agreements have not been met. Accordingly, these grants are considered conditional promises to give and are not included in the accompanying combined financial statements.

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 7. Investments

Investments at June 30, 1997 consist of the following:

|  | Short-term   | Long-term     | Total         |
|--|--------------|---------------|---------------|
| Cash and cash equivalents                    | \$ 98,347    | \$ 9,525,169  | \$ 9,623,516  |
| Common stocks                                | 286,630      | 8,129,827     | 8,416,457     |
| U.S. government securities                   | 2,827,346    | 19,285,647    | 22,112,993    |
| Corporate debt securities                    | -            | 74,670        | 74,670        |
| Mutual funds                                 | 1,229,412    | 4,150,816     | 5,380,228     |
| Beneficial interests in trusts in perpetuity | -            | 624,380       | 624,380       |
| Other  | -            | 478,148       | 478,148       |
|  | 4,361,735    | 42,278,577    | 46,640,312    |
| Real estate held for sale                    | 83,685       | -             | 83,685        |
|  | \$ 4,445,420 | \$ 42,278,577 | \$ 46,723,917 |

#### 8. Property, Plant and Equipment

Property, plant and equipment, net, consisted of the following at June 30, 1997:

|  |               |
|--|---------------|
| Land   | \$16,013,562  |
| Buildings  | 36,236,267    |
| Building improvements  | 1,407,208     |
| Equipment  | 18,193,193    |
| Leasehold improvements   | 12,873,184    |
| Equipment under capital leases   | 2,634,596     |
| Construction in progress   | 32,888,813    |
|  | 89,278,823    |
| Less accumulated depreciation and amortization<br>(including accumulated amortization on equipment<br>under capital leases of approximately \$2,994,402) | 76,451,500    |
|  | \$ 12,827,323 |

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 8. Property, Plant and Equipment (continued)

In fiscal 1996, Covenant House New Jersey ("CHNJ") was awarded a grant of \$1,000,000 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.

In fiscal 1992, Covenant House Toronto ("CH Toronto") was awarded two grants totaling Can. \$6,890,080 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).

During fiscal 1997, Covenant House Alaska entered into an agreement to purchase a building for use in its program services, contingent upon funding being provided for the purchase by the U.S. Department of Housing and Urban Development. The purchase price of the building is \$690,080.

#### 9. Debt Obligations

Debt obligations consisted of obligations under capital leases (net of interest of approximately \$7,980). As of June 30, 1997, aggregate principal payments of the capital lease obligations during the next three years are approximately as follows:

|      |                 |
|------|-----------------|
| 1998 | \$13,300        |
| 1999 | 15,100          |
| 2000 | 8,100           |
|      | <u>\$36,500</u> |

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.

Covenant House has an unsecured line of credit agreement with Chase Manhattan Bank ("Chase") to borrow up to an aggregate amount of \$1,000,000. Interest is payable at the Chase prime rate plus 75 basis points. There are no outstanding borrowings at June 30, 1997.

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 10. Split-Interest Agreements

Covenant House is the beneficiary in a number of split-interest agreements with donors. Covenant House may control donated assets and may share with the donor or the donor's designee income generated from those assets until such time as stated in the agreement (usually upon the death of the donor or donor's designee) at which time the remaining assets are generally unrestricted for Covenant House's use. Covenant House also has beneficial interests in certain perpetual trusts administered by a third party (valued at \$624,300 at June 30, 1997).

Covenant House records the assets of the agreements on its statement of financial position (at fair value) if the assets are controlled and invested by Covenant House. Covenant House records contribution income and a liability for amounts payable to annuitants using an actuarial calculation at the time of the gift. Adjustments to the actuarial calculation for changes in assumptions are made annually. The discount rates used in the calculation at June 30, 1997 ranged from 4.0% to 8.9%. At June 30, 1997, approximately \$2.6 million of long-term investments and \$1.5 million of annuities payable in the accompanying combined financial statements related to such agreements. State mandated insurance reserves related to these agreements are maintained at the required level.

In other situations where assets are controlled and invested by an independent third party, Covenant House records a receivable and contribution income for its share of the assets based on the present value of the estimated future distributions expected to be received by Covenant House over the expected term of the agreement. At June 30, 1997, long-term receivables relating to such agreements were approximately \$507,300.

#### 11. Foreign Currency Translation

The management of Covenant House has determined that the functional currency of certain of its foreign affiliates is the United States dollar and for the remaining foreign affiliates the functional currency is the local currency. Accordingly, for those affiliates that use United States dollars as the functional currency, monetary assets and liabilities are translated using the current exchange rate in effect at the 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.

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 11. Foreign Currency Translation (continued)

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.

Approximately 12% of Covenant House's assets are held by foreign affiliates.

#### 12. Temporarily Restricted Net Assets

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

|  |                    |
|--|--------------------|
| Time restrictions:                             |                    |
| Donated use of facility                        | \$1,034,814        |
| Split-interest agreements                      | 839,934            |
| Other time restrictions                        | 247,244            |
| Purpose restrictions:                          |                    |
| Covenant House California program restrictions | 183,500            |
| Donation Kinderhilfe Alemania                  | 129,455            |
| Other donor-imposed purpose restrictions       | 488,796            |
|  | <u>\$2,883,739</u> |

#### 13. Permanently Restricted Net Assets

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



## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 14. Reclassification of Net Assets

Net assets were released from donor restrictions by incurring expenses satisfying time and purpose restrictions specified by donors as follows:

|                                       |                     |
|---------------------------------------|---------------------|
| Time restrictions expired             | \$ 178,806          |
| Purpose restrictions satisfied:       |                     |
| Crisis Center construction project    | 567,500             |
| Shelter and crisis care—mother/child  | 124,143             |
| Health services                       | 92,544              |
| Acquisition of building and equipment | 75,148              |
| Outreach                              | 39,691              |
| Rights of passage                     | 30,242              |
| Other purpose restrictions satisfied  | 141,825             |
|                                       | <u>\$ 1,290,195</u> |

#### 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 \$675,000 for the year ended June 30, 1997 and are reported in the accompanying combined financial statements. The value of contributed services performed by community members was approximately \$498,000 and was not recognized in the accompanying combined financial statements.

#### 16. Pension Plan

Covenant House has a defined benefit pension plan (the "Plan") covering substantially all of its employees and the employees of 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 mutual funds that are invested in equities and debt obligations.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

**16. Pension Plan (continued)**

Total pension expense for the Plan for fiscal year 1997 included the following:

|   |                   |
|---|-------------------|
| Service cost—benefits earned during the year  | \$ 881,619        |
| Interest cost on projected benefit obligation | 679,875           |
| Actual return on plan assets                  | (1,589,135)       |
| Net amortization and deferral                 | 783,474           |
| Total pension cost                            | <u>\$ 765,833</u> |

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

|   |                     |
|---|---------------------|
| Accumulated benefit obligations, including vested benefits of \$6,487,653 | <u>\$ 6,826,617</u> |
| Projected benefit obligation for service rendered to date                 | \$ 8,854,741        |
| Plan assets at fair value   | <u>11,643,391</u>   |
| Plan assets in excess of projected benefit obligation                     | 2,788,650           |
| Unrecognized prior service cost being amortized over 15 years             | 192,247             |
| Unrecognized net loss from past experience different from that assumed    | (1,184,478)         |
| Unrecognized net asset being recognized over 15 years                     | <u>(293,878)</u>    |
| Prepaid pension expense   | <u>\$ 900,240</u>   |

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations were 7.23% and 5%, respectively. The expected long-term rate of return on assets was 8%.

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' contributions. The expense related to the defined contribution plan was approximately \$62,000 during the year ended June 30, 1997.

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.

## Covenant House and Affiliates

### Notes to Combined Financial Statements (continued)

#### 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 514(b) of the Code. Covenant House and its U.S. affiliates, as not-for-profit organizations, are exempt from state and local income taxes and have been classified as publicly-supported charitable organizations under Section 509(a)(1) of the Code and qualify for the maximum charitable contribution deduction for donors.

#### 19. Commitments

Covenant House is party to a number of operating leases that expire at various dates through the year 2001. Aggregate future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 1997 are approximately as follows:

| Year ending June 30: |                    |
|----------------------|--------------------|
| 1998                 | \$ 607,000         |
| 1999                 | 390,000            |
| 2000                 | 57,000             |
| 2001                 | 16,000             |
|                      | <u>\$1,066,000</u> |

#### 20. Contingencies

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

Coventry House and Affiliates

Combined Schedule of Expenditures of Federal Awards

Year ended June 30, 1997

| Federal Award Recipient  | Federal Grantor Program Title/Pass-Through Grantor Program or Charity Title   | Federal CFDA Number                                      | Pass-Through Grantor's Number                             | 1997 Expenditures  |
|--|---|--|---|--|
| Coventry House California<br>Coventry House California   | U.S. Department of Housing and Urban Development<br>Community Development Block Grant/Continuum Grants<br>Los Angeles Community Development Department<br>Los Angeles Community Development Department        | 14.218<br>14.218   | 93186<br>93135  | \$ 34,500<br>11,487<br>45,987                              |
| Coventry House New Orleans<br>Coventry House New Orleans   | Community Development Block Grants/State's Programs<br>City of New Orleans<br>City of New Orleans   | 14.228<br>14.228   | ES04418E<br>ES044128                                      | 34,641<br>29,017<br>63,658                                 |
| Coventry House Texas   | Emergency Shelter Grants Program<br>Child Care Council of Houston Houston   | 14.231   | FC 31544  | 124,083  |
| Coventry House California<br>Coventry House Alaska<br>Coventry House Florida<br>Coventry House Florida<br>Coventry House New Orleans<br>Coventry House New Orleans | Supportive Housing Program<br>Los Angeles Homeless Services Authority<br>Received directly<br>Received directly<br>Homeless Services Network of Orange County, Inc.<br>Received directly<br>Received directly | 14.235<br>14.235<br>14.235<br>14.235<br>14.235<br>14.235 | CA1082L-1121<br>N/A<br>N/A<br>FL298066-8785<br>N/A<br>N/A | 331,497<br>35,863<br>168,341<br>6,471<br>177,893<br>94,433 |

Government House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

| Federal Award Broadcast         | Federal Grant/Program Title/Pass Through Grant/Program or Charter Title                  | Federal CFDA Number | Pass-Through Grantor's Number | 1997 Expenditures |
|---------------------------------|--|---------------------|-------------------------------|-------------------|
|                                 | <b>U.S. Department of Housing and Urban Development (continued)</b>                      |                     |                               |                   |
|                                 | Supportive Housing Program (continued):  |                     |                               |                   |
| Government House New Orleans    | UNITY for the Homeless, Inc.   | 14.239              | LA48095-08176                 | \$ 84,798         |
| Government House New Orleans    | UNITY for the Homeless, Inc.   | 14.239              | LA48095-1400                  | 10,254            |
| Government House Texas          | Houston Regional HIV/AIDS Resource Group   | 14.239              | TX21805-0040-#                | 62,949            |
| Government House Texas          | Harris County Housing and Community Development Agency                                   | 14.239              | TX218150066                   | 98,282            |
| Government House Texas Under 21 | Houston Regional HIV/AIDS Resource Group   | 14.239              | TX2180500617                  | 1,697             |
|                                 | Received directly  | 14.239              | N/A                           | 1,403,278         |
|                                 |  |                     |                               | <u>2,453,967</u>  |
| Government House California     | Housing Opportunity for Persons with AIDS: City of Los Angeles Health and Human Services | 14.241              | CA18894-0059                  | 14,085            |
| Government House Alaska         | Innovative Homeless Initiative Demonstration Program: Received directly                  |                     |                               |                   |
| Government House California     | Salvation Army of Los Angeles  | 14.245              | CA18895-0234                  | 148,030           |
| Government House New Orleans    | UNITY for the Homeless, Inc.   | 14.245              | 98-1689937                    | 47,582            |
|                                 |  |                     |                               | <u>89,734</u>     |
| Government House New Jersey     | Special Purpose Acquisition Grant: City of Atlantic City                                 | N/A                 | N/A                           | 286,146           |
|                                 | Total U.S. Department of Housing and Urban Development                                   |                     |                               | <u>492,309</u>    |
|                                 |  |                     |                               | <u>1,483,377</u>  |

Coventry House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

| Federal Award Recipient                      | Federal Grant/Program Title/Pass-Through Grant/Program or Charter Title   | Federal CFDA Number | Pass-Through Grant/Program Number | 1997 Expenditures |
|--|---|---------------------|-----------------------------------|-------------------|
| Coventry House Florida                       | U.S. Department of Health and Human Services<br>Acquired Incompetency Activity (AID6)   | 93.118              | N/A                               | \$ 277,134        |
| Coventry House Florida                       | Received directly   | 93.118              | LPC28                             | 1,800             |
| Coventry House Texas                         | Florida Department of Health and Rehabilitative Services<br>Houston Public Health Services  | 93.118              | FC 33-500                         | 655               |
| Under 21                                     | Health Research, Inc.   | 93.118              | HS3321                            | 30,693            |
|  |   |                     |                                   | <u>280,732</u>    |
| Coventry House New Orleans                   | Project for Assistance in Transition from Homelessness<br>Louisiana State Department of Health and Hospitals  | 93.150              | 686111                            | 36,259            |
| Under 21                                     | Project Grants for Health Services to the Homeless<br>Received directly   | 93.151              | N/A                               | 193,995           |
| Coventry House Texas<br>Coventry House Texas | ITF Demanding Program for Children, Adolescents,<br>and Women<br>Houston Regional III WVAE26 Resource Group<br>Houston Regional III WVAE26 Resource Group | 93.153<br>93.153    | PE04P96<br>PE04P97                | 3,269<br>34,888   |
|  |   |                     |                                   | <u>38,148</u>     |
| Coventry House New Jersey                    | Transitional Living for Homeless Youth<br>Received directly   | 93.538              | N/A                               | 92,429            |

Consortium House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

| Federal Award Recipient                                     | Federal Grant/Program Title/Pass-Through Grant/Program or Cluster Title  | Federal CFDA Number | Pass-Through Grant's Number | 1997 Expenditures   |
|---|--|---------------------|-----------------------------|---------------------|
| Consortium House New Jersey<br>Consortium House New Orleans | U.S. Department of Health and Human Services (continued)<br>Drug Education and Prevention for Homeless Youth<br>Received directly<br>Received directly | 91.857<br>91.857    | N/A<br>N/A                  | \$ 27,622<br>36,478 |
| Under 21  | Foster Care-Title IV-E<br>City of New York Administration for Children Services  | 85.658              | 9561316                     | 311,488             |
| Under 21  | Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease<br>Received directly  | 93.918              | N/A                         | 120,942             |
| Government House Florida                                    | Block Grants for the Prevention and Treatment of Substance Abuse<br>Florida Department of Health and Rehabilitative Services                           | 91.859              | JED07                       | 98,420              |
| Government House California                                 | Housing Opportunities for Persons With AIDS<br>City of Los Angeles Department of Health and Human Services   | 91.948              | ED06215                     | 71,540              |
| Government House New Orleans                                | Office of Community Services<br>Total U.S. Department of Health and Human Services   | N/A                 | 58-1060907                  | 46,278              |
|   |  |                     |                             | <u>1,585,614</u>    |

**Covenant House and Affiliates**

**Combined Schedule of Expenditures of Federal Awards (continued)**

| <b>Federal Award Recipient</b>  | <b>Federal Commodity/Program Title/Pass-Through Grantor Program or Cluster Title</b> | <b>Federal CFDA Number</b> | <b>Pass-Through Commodity Number</b> | <b>1997 Expenditures</b> |
|---|--|----------------------------|--------------------------------------|--------------------------|
| Covenant House Alaska<br>Covenant House Texas   | <b>U.S. Department of Agriculture<br/>Food Distribution:</b>                         |                            |                                      |                          |
|   | Alaska Department of Education   | 10-550                     | AK-006001250                         | \$ 2,317                 |
|   | Texas Department of Human Services   | 10-550                     | 10230006                             | 48                       |
|   | <b>Nutrition Cluster:</b>  |                            |                                      | <u>2,365</u>             |
| Covenant House Alaska<br>Covenant House Florida<br>Covenant House New Orleans<br>Under 21 | <b>School Breakfast Program:</b>   |                            |                                      |                          |
|   | Alaska Department of Education   | 10-550                     | AK-006002120                         | 10,675                   |
|   | Florida Department of Education  | 10-550                     | 01-1257                              | 30,780                   |
|   | Louisiana Department of Education  | 10-550                     | 3547                                 | 37,437                   |
|   | New York State Department of Education   | 10-550                     | 786159                               | 191,917                  |
| Covenant House Alaska<br>Covenant House Florida<br>Under 21                               | <b>National School Lunch Program:</b>  |                            |                                      |                          |
|   | Alaska Department of Education   | 10-550                     | AK-006003250                         | 21,601                   |
|   | Florida Department of Education  | 10-550                     | 01-1257                              | 36,810                   |
|   | New York State Department of Education   | 10-550                     | 786159                               | 76,158                   |
|   | <b>Total U.S. Department of Agriculture</b>  |                            |                                      | <u>311,238</u>           |
|   |  |                            |                                      | <u>316,128</u>           |



Convent House and Affiliates

Combined Schedule of Disbursements of Federal Awards (continued)

| Federal Award Recipient                                       | Federal Grants/Program Title/Pass-Through Grantor/<br>Program or Cluster Title | Federal<br>CFDA<br>Number | Pass Through<br>Grantor's<br>Number | 1997<br>Expenses     |
|---|--|---------------------------|-------------------------------------|----------------------|
| <b>Federal Emergency Management Agency</b>                    |  |                           |                                     |                      |
| <b>Federal Emergency Management Pool and Shelter Programs</b> |  |                           |                                     |                      |
| Convent House Alaska  | United Way   | 83.523                    | 14-6189-004-LR0-014                 | \$ 5,397             |
| Convent House New Orleans                                     | United Way   | 83.523                    | 15-3658-024                         | 5,184                |
| Convent House California                                      | Foodbank directly  | 83.523                    | N/A                                 | 30,065               |
| Convent House Florida   | United Way   | 83.523                    | 14-1370-004-LR0-17                  | 1,330                |
| Convent House Florida   | United Way   | 83.523                    | 14-1370-004-LR0-17                  | 18,200               |
| Convent House Texas   | United Way   | 83.523                    | 15-3828-000                         | 30,547               |
| Under 21  | United Way   | 83.523                    | 15-6314-030                         | 13,867               |
|   | <b>Total Federal Emergency Management Agency</b>                               |                           |                                     | <b>94,658</b>        |
| <b>U.S. Department of Education</b>                           |  |                           |                                     |                      |
| <b>Vocational Education-Community Based Organizations</b>     |  |                           |                                     |                      |
| Convent House New Orleans                                     | Louisiana Department of Education  | 84.048                    | 24-97-36-2-5P                       | 9,112                |
|   | <b>Total U.S. Department of Education</b>                                      |                           |                                     | <b>9,112</b>         |
|   | <b>Total Federal Awards</b>  |                           |                                     | <b>\$ 13,171,267</b> |

**Covenant House and Affiliates**

**Schedule of State of New Jersey Assistance**

Year ended June 30, 1997

| <u>Award<br/>Recipient</u> | <u>New Jersey Grant/Program Title</u>  | <u>NJ Grant<br/>Number</u> | <u>1997<br/>Expenditures</u> |
|----------------------------|--|----------------------------|------------------------------|
| Covenant House New Jersey  | State of New Jersey Department of Health:<br>Alcohol/Drug Abuse Prevention, Training<br>and Services Education |                            |                              |
|                            | Salaries   | 96-034-A-04-80             | \$52,276                     |
|                            | Salaries   | 97-899-A-04-80             | 5,673                        |
|                            | Fringe benefits  | 97-899-A-04-80             | 628                          |
|                            |  |                            | <u>58,577</u>                |
| Covenant House New Jersey  | Atlantic City Partnership for the Prevention<br>of HIV/AIDS passed through the City of<br>Atlantic City:       |                            |                              |
|                            | Salaries   | 97-108-A-05-80             | \$3,165                      |
|                            | Fringe benefits  | 97-108-A-05-80             | 6,483                        |
|                            | OTPS-Program expense   | 97-108-A-05-80             | 1,800                        |
|                            |  |                            | <u>11,448</u>                |
|                            | <b>Total State of New Jersey Assistance</b>  |                            | <u><b>\$70,025</b></u>       |

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

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

The Board of Directors  
Governor House

We have audited the combined financial statements of Governor House and Affiliates (the "Organization") as of and for the year ended June 30, 1997, and have issued our report thereon, which expressed reliance on other auditors, dated September 17, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

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

noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Organization in a separate letter dated September 17, 1997.

This report is intended for the information of the Organization's audit committee, management, federal awarding agencies, pass-through entities and the State of New Jersey. However, this report is a matter of public record and its distribution is not limited.

*Ernst + Young LLP*

September 17, 1997

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

The Board of Directors  
Covenant House

**Compliance**

We have audited the compliance of Covenant House and Affiliates (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1997. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997.

## **Internal Control Over Compliance**

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

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

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Ernst & Young LLP*

September 27, 1997

**Coverman House and Affiliates**

**Schedule of Findings and Questioned Costs**

Year ended June 30, 1997

**Part I—Summary of Auditor's Results**

**Financial Statement Section**

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

**Federal Awards Section**

|   |             |
|---|-------------|
| Dollar threshold used to determine Type A programs:   | \$250,000   |
| Auditor qualified as low-risk auditor?  | Yes         |
| Type of auditor's report on compliance for major programs:  | Unqualified |
| Internal control over compliance:   |             |
| Material weakness(es) identified?   | No          |
| Were reportable condition(s) identified that are not considered to be material weakness(es)?                      | No          |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section 510(a))? | No          |
| Identification of major programs:   |             |

| CFDA Number(s) or contract number | Name of Federal Program or Cluster   |
|-----------------------------------|--|
| 14.215<br>N0395PG908              | U.S. Department of Housing and Urban Development:<br>Supportive Housing Program<br>Special Purpose Acquisition Grant |
| 93.658                            | U.S. Department of Health and Human Services Foster<br>Care—Title IV-E   |
| 16.552/04.555                     | U.S. Department of Agriculture Nutrition Cluster   |



Government House and Affiliates

Schedule of Findings and Questioned Costs (continued)

Year ended June 30, 1997

**Part II—Schedule of Financial Statement Findings**

None.

**Part III—Schedule of Federal Award Findings and Questioned Costs**

None.