Financial Statements

Covenant House New Orleans

Year ended June 30, 1998 with summarized financial information for the year ended June 30, 1997 with Report of Independent Auditors

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financial information for the year ended June 30, 1997

Contents

ERNST & YOUNG LLP

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Report of Independent Auditors

The Board of Directors
Covenant House New Orleans

We have audited the accompanying statements of financial position of Covenant House New Orleans as of June 30, 1998 and 1997, and the related statements of cash flows for the years then ended and the related statements of activities and functional expenses for the year ended June 30, 1998. These financial statements are the responsibility of Covenant House New Orleans's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 1998 and 1997, and its cash flows for the years then ended, and the changes in its net assets for the year ended June 30, 1998 in conformity with generally accepted accounting principles.

Ernst + Young LLP

August 21, 1998

Covenant House New Orleans

Statements of Financial Position

	June 30 1998	June 30 1997
Assets		
Cash and cash equivalents	**$ 116,957**	$ 119,357
Contributions receivable - short-term	**105,686**	48,072
Grants receivable	**153,994**	130,506
Other receivables	**2,763**	2,005
Contributed inventory	**10,521**	10,657
Prepaid expenses and other assets	**85,879**	55,845
Real estate held for resale	**20,000**	20,000
Land, building and equipment, net of accumulated depreciation of $1,006,281 in 1998 and $960,870 in 1997	**992,068**	996,613
Long-term investments	**2,242,628**	2,399,304
Total assets	**$ 3,730,496**	$ 3,782,359
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 207,921**	$ 189,043
Refundable advances	**63,203**	45,300
Due to Parent	**187,510**	117,539
Total liabilities	**458,634**	351,882
Net assets:		
Unrestricted:		
Board designated	**2,242,628**	2,399,304
Investment in land, building and equipment	**992,068**	996,613
Total unrestricted net assets	**3,234,696**	3,395,917
Temporarily restricted - designated projects	**37,166**	34,560
Total net assets	**3,271,862**	3,430,477
Total liabilities and net assets	**$ 3,730,496**	$ 3,782,359

See accompanying notes.

Covenant House New Orleans

Statement of Activities

Year ended June 30, 1998 with summarized financial information for the year ended June 30, 1997

	Unrestricted	Temporarily Restricted Designated Projects	Total June 30 1998	Total June 30 1997
Contributions, revenue and reclassifications:				
Contributions:				
Contribution from Parent	$ 664,589	$ –	$ 664,589	$ 628,022
Contribution from individuals, foundations and corporations, including legacies and bequests totaling $97,825 in 1998	2,508,469	26,628	2,535,097	2,526,873
Government grants and contracts	711,330	–	711,330	730,102
Contributed services and merchandise, including inventory adjustments	80,622	–	80,622	102,311
Special events revenue, net of direct costs of $21,525 in 1998	31,296	–	31,296	40,971
Total contributions	3,996,306	26,628	4,022,934	4,028,279
Revenue:				
Investment income	314,010	–	314,010	298,883
Other income	26,616	–	26,616	16,646
Total revenue	340,626	–	340,626	315,529
Total contributions and revenue	4,336,932	26,628	4,363,560	4,343,808
Reclassifications:				
Net assets released from restrictions	24,022	(24,022)	–	–
Total contributions, revenue and reclassifications	4,360,954	2,606	4,363,560	4,343,808
Expenses:				
Program services	3,446,717	–	3,446,717	3,331,612
Supporting services:				
Management and general	512,901	–	512,901	435,469
Fund-raising	562,557	–	562,557	574,288
Total supporting services	1,075,458	–	1,075,458	1,009,757
Total expenses	4,522,175	–	4,522,175	4,341,369
Change in net assets	(161,221)	2,606	(158,615)	2,439
Net assets, at beginning of year	3,395,917	34,560	3,430,477	3,428,038
Net assets, at end of year	$ 3,234,696	$ 37,166	$ 3,271,862	$ 3,430,477

See accompanying notes.

Covenant House New Orleans

Statement of Functional Expenses

Year ended June 30, 1998 with summarized financial information for the year ended June 30, 1997

	Program Services					
	Shelter and Crisis	Medical	Mother/ Child	Community Service Center	Rights of Passage	Outreach
Salaries and wages	$ 616,293	$ 75,379	$ 358,350	$ 162,232	$ 413,979	$ 84,516
Payroll taxes	58,902	7,011	34,190	14,487	37,432	7,568
Employee benefits	70,576	6,208	41,269	21,842	42,889	11,777
Total salaries and related expenses	745,771	88,598	433,809	198,561	494,300	103,861
Faith community costs	63,565	–	34,227	17,258	–	–
Legal fees	1,967	–	1,059	378	1,135	–
Medical fees	67	21,314	36	580	1,968	3,500
Consulting fees	5,278	–	2,842	19,640	2,617	–
Accounting fees	–	–	–	–	–	–
Supplies	24,227	2,709	13,288	9,657	9,707	1,061
Telephone	7,321	586	4,170	7,374	9,600	1,195
Postage, printing and mailing lists	1,267	93	724	557	710	136
Occupancy:						
Fuel and utilities	42,573	1,171	24,741	18,626	43,325	–
Repairs and maintenance	12,821	1,493	6,903	7,768	7,826	–
Donated facilities	–	–	–	–	–	–
Rent and other	75,797	3,450	43,907	1,544	87,284	–
Equipment	15,538	1,196	8,442	9,678	7,941	197
Transportation	13,373	236	7,206	3,618	12,569	6,646
Specific assistance to individuals:						
Food	55,851	–	30,074	25	11,483	5,041
Medical	77	12,399	42	597	1,863	840
Donated medical	–	9,418	–	389	657	–
Clothing, allowances and other	25,633	6	14,483	6,128	8,235	–
Donated clothing and merchandise	11,190	–	6,025	–	414	2,962
Temporary help	10,834	962	5,834	1,018	2,957	–
Other purchased services	33,444	3,829	18,008	24,999	17,405	51
Dues, licenses and permits	544	74	353	847	296	–
Subscriptions and publications	1,299	72	718	913	1,239	–
Staff recruitment	1,262	450	679	504	300	357
Insurance	11,969	517	6,768	4,693	8,126	102
Donated services	85	40,424	46	1,203	3,634	–
Miscellaneous	1,864	325	1,004	995	1,678	2,980
Bank charges and fees	49	–	27	280	19	–
Total functional expenses before depreciation and amortization	1,163,666	189,322	665,415	337,830	737,288	128,929
Depreciation and amortization	20,383	1,559	10,976	30,572	8,845	9,926
Total functional expenses	1,184,049	190,881	676,391	368,402	746,133	138,855
Less direct costs of special events	–	–	–	–	–	–
Total expenses reported by function on statement of activities	$ 1,184,049	$ 190,881	$ 676,391	$ 368,402	$ 746,133	$ 138,855

Public Education	Total Programs	Supporting Services: Management and General	Supporting Services: Fund-Raising	Total 1998	Total 1997
$ 27,031	$ 1,737,780	$ 240,623	$ 147,549	$ 2,125,952	$ 1,938,136
2,182	161,772	21,125	12,895	195,792	192,745
3,495	198,056	24,288	15,461	237,805	263,575
32,708	2,097,608	286,036	175,905	2,559,549	2,394,456
–	115,050	–	–	115,050	97,622
1,135	5,674	1,225	757	7,656	486
–	27,465	–	–	27,465	27,484
4	30,381	105	31,448	61,934	128,233
–	–	30,250	–	30,250	30,400
168	60,817	8,769	2,795	72,381	79,146
470	30,716	19,595	5,366	55,677	42,784
103,249	106,736	6,635	248,678	362,049	338,548
–	130,436	13,035	2,757	146,228	146,074
–	36,811	4,146	1,446	42,403	43,254
–	–	–	–	–	–
–	211,982	26,975	5,766	244,723	246,477
–	42,992	11,880	4,296	59,168	48,400
2,591	46,239	8,120	5,933	60,292	47,760
75	102,549	–	–	102,549	124,173
–	15,818	–	–	15,818	13,021
–	10,464	–	–	10,464	2,045
–	54,485	–	–	54,485	26,995
9	20,600	287	2,677	23,564	19,267
–	21,605	19,069	1,247	41,921	8,777
115	97,851	20,400	63,894	182,145	208,881
58	2,172	93	1,089	3,354	2,097
73	4,314	417	195	4,926	9,790
–	3,552	2,286	418	6,256	4,210
740	32,915	4,280	1,253	38,448	44,898
5	45,397	1,330	3	46,730	81,102
287	9,133	3,695	23,353	36,181	48,292
–	375	32,430	596	33,401	12,005
141,687	3,364,137	501,058	579,872	4,445,067	4,276,677
319	82,580	11,843	4,210	98,633	94,031
142,006	3,446,717	512,901	584,082	4,543,700	4,370,708
–	–	–	(21,525)	(21,525)	(29,339)
$ 142,006	$ 3,446,717	$ 512,901	$ 562,557	$ 4,522,175	$ 4,341,369

See accompanying notes.

Covenant House New Orleans

Statements of Cash Flows

	Year ended June 30 1998	1997
Operating activities		
Increase (decrease) in net assets	$ **(158,615)**	$ 2,439
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**98,633**	94,031
Net unrealized gain on investments	**(106,616)**	(126,509)
Loss on disposition of equipment	**296**	–
Contributed equipment	**(750)**	(23,975)
Change in operating assets and liabilities:		
Receivables	**(81,860)**	67,081
Contributed inventory	**136**	103
Prepaid expenses and other assets	**(30,034)**	(17,172)
Accounts payable and accrued expenses	**18,878**	27,201
Refundable advances	**17,903**	(14,700)
Due to Parent	**69,971**	41,653
Net cash provided by (used in) operating activities	**(172,058)**	50,152
Investing activities		
Acquisition of land, building and equipment	**(94,034)**	(35,284)
Proceeds from sale of equipment	**400**	–
Purchases of long-term investments	**(407,978)**	(708,828)
Sales of long-term investments	**671,270**	763,811
Net cash provided by investing activities	**169,658**	19,699
Net increase (decrease) in cash and cash equivalents	**(2,400)**	69,851
Cash and cash equivalents at beginning of year	**119,357**	49,506
Cash and cash equivalents at end of year	$ **116,957**	$ 119,357

See accompanying notes.

Covenant House New Orleans

Notes to Financial Statements

June 30, 1998

1. Organization

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

Covenant House Alaska
Covenant House California
Covenant House Florida
Covenant House New Jersey
Covenant House New Orleans
Covenant House Michigan
Covenant House Texas
Covenant House Washington, D.C.
Covenant House Western Avenue
Testamentum
Under 21
Covenant House Toronto
Covenant House Vancouver
Association Casa Alianza (Guatemala)
Casa Alianza De Honduras
Casa Alianza Nicaragua
Casa Alianza Internacional
Fundacion Casa Alianza Mexico, I.A.P.

Covenant House New Orleans serves youth through the following 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.

1. Organization (continued)

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

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

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

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.

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

2. Significant Accounting Policies

Fund Accounting and Net Asset Classification

To ensure compliance with restrictions placed on the resources available to Covenant House New Orleans, Covenant House New Orleans' accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes 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 shortfalls 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.

2. 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.

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.

2. 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, is recorded in the unrestricted net asset class except where the instructions of the donor specify otherwise.

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.

Contributed Services and Merchandise

Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair market value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

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

Use of Estimates

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

2. Significant Accounting Policies (continued)

Contributions Receivable

Unconditional pledges to give that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. For the year ended June 30, 1998, the discounts on those amounts are immaterial, thus not recorded.

Contributions receivable of approximately $106,000 and $48,000 at June 30, 1998 and 1997, respectively.

Summarized Financial Information for Fiscal 1997

The accompanying 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, 1997, from which the summarized information was derived.

3. 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 $66,000 of $119,000 total joint costs in 1998 were allocated to Public Education.

4. Long-term Investments

Long-term investments at June 30 consisted of:

	1998		1997	
	Market	Cost	Market	Cost
Cash and cash equivalents	$ 314,183	$ 314,183	$ 508,238	$ 508,238
Common stocks	9,890	9,844	19,579	20,069
Debt securities	896,816	873,587	766,979	768,064
Mutual funds	1,021,739	668,096	1,104,508	832,032
	$ 2,242,628	$ 1,865,710	$ 2,399,304	$ 2,128,403

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

The following schedule summarizes unrestricted investment income:

	1998	1997
Dividends and interest	$ 105,247	$ 106,046
Net realized and unrealized gains	208,763	192,837
Investment return designated for current operations	$ 314,010	$ 298,883

5. Land, Building and Equipment

	June 30	
	1998	1997
Land	$ 100,500	$ 100,500
Building and improvements	846,896	846,896
Furniture and equipment	1,050,953	1,010,087
	1,998,349	1,957,483
Less accumulation depreciation and amortization	(1,006,281)	(960,870)
	$ 992,068	$ 996,613

5. Land, Building and Equipment (continued)

Covenant House New Orleans completed the construction and renovation of a community services center (the Project) which became operational in October 1994. The total cost of the Project was approximately $926,000, which was funded by a Special Project Grant of $486,000 from the City of New Orleans, a $75,000 Community Development Block Grant (CDBG) and Capital Appeal contributions from private donors. The CDBG 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 1998 related to this grant totaled $15,000.

6. Government Grants

During fiscal 1998, Covenant House New Orleans received funding from government and private agencies as follows:

U. S. Department of Housing and Urban Development	$543,560
U. S. Department of Health and Human Services	110,833
U. S. Department of Agriculture	35,665
Federal Emergency Management Agency	4,972
State/Local Private Agencies	1,300
City of New Orleans Community Development Block Grant	15,000
	$711,330

7. Faith Community

Contributed services were provided by members of the Covenant House Faith Community (Community). Community members are full-time volunteers who commit themselves to a year of service to runaway and homeless youths. Room and board, $15 per day stipend, health insurance and reimbursement for other personal expenses are provided to Community members by Covenant House New Orleans. The expenses associated with Community members were approximately $115,000 for the year ended June 30, 1998, and are reported in the accompanying financial statements. The value of services performed by Community members was approximately $109,000 in 1998 and was not recognized in the accompanying financial statements.

8. Related Party Transactions

The Parent 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 received by the Parent are allocated and recorded in the accounts of the entity designated by the donor. In fiscal 1998, Covenant House New Orleans received contributions from the Parent totaling $646,000. In addition, Covenant House New Orleans paid approximately $431,000 in 1998 to the Parent for fund-raising expenses.

The Parent provides certain of its affiliates with insurance, computer access services and data software and hardware maintenance. The Parent has allocated expenses of approximately $55,000 in 1998 related to such services to Covenant House New Orleans.

Covenant House New Orleans leases its program facility from the Parent on a month-to-month basis. Rent paid to the Parent amounted to approximately $208,000 in fiscal 1998.

Covenant House New Orleans participates in a defined benefit pension plan administered by the Parent. The defined benefit pension plan covers substantially all employees. Total pension cost of $50,000 was allocated to Covenant House New Orleans from the Parent in fiscal 1998.

9. Impact of Year 2000 (Unaudited)

During the past fiscal year, Covenant House New Orleans reviewed all of its computer programs and determined that some were not "Year 2000 (Y2K) Compliant," i.e., they had been written using two digits rather than four to define the applicable year. As a result, those programs having time-sensitive calculations could not differentiate the year 2000, designated as "00", from the year 1900. Left unchanged, this situation could have resulted in miscalculations or other system malfunctions.

Subsequently, Covenant House New Orleans has made the necessary changes to its software. The cost associated with these changes was not material. Covenant House New Orleans believes it is "Y2K Compliant" and is presently in the process of testing its updated programs.

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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, 1998, and have issued our report thereon dated August 21, 1998.

Statement on Auditing Standards No. 61, *Communication With Audit Committees*, requires the independent auditor to communicate to the board of directors certain information regarding the scope and results of the audit to assist the committee in overseeing the financial reporting and disclosure process for which management is responsible. This letter summarizes the reporting requirements of this statement for our 1998 audit.

Auditors' Responsibility Under Generally Accepted Auditing Standards

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

Our responsibility as your auditors is to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As such, our audit of the Covenant House New Orleans financial statements is not designed to determine Covenant House New Orleans readiness for the Year 2000. Further, we have no responsibility with regard to Covenant House New Orleans efforts to make its systems, or any other systems, such as those of vendors, service providers, or any other third parties Year 2000 ready, or to provide assurance on whether Covenant House New Orleans has addressed or will be able to address all affected systems on a timely basis.

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.

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 4, 1998

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The Board of Directors
Covenant House New Orleans

In planning and performing our audit of the financial statements of Covenant House New Orleans for the year ended June 30, 1998, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be a material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operations that we consider to be material weaknesses, as defined above.

We have the following comments on other matters.

Payroll

It was noted that certain pay rate changes were not processed on their effective dates. We understand the delay in processing was due to securing the board of directors' approval for the rate changes. This delay caused retroactive adjustments to be made in personnel salaries. We recommend that all approvals for pay rate changes be obtained prior to the effective date of the change to prevent the need for retroactive adjustments.

It was also noted that an employee changed positions within Covenant House New Orleans and his pay rate was decreased. The rate change was processed after the effective date. This delay caused retroactive adjustments to be made. We are aware that a plan is in place to combine the payroll and human resources databases so that in the future there will be no delay in the processing of pay rate changes.

* * * * *

This report is intended solely for the information and use of the board of directors. We would be pleased to discuss the above matters or respond to any questions, at your convenience.

Ernst + Young LLP

August 21, 1998

COVENANT HOUSE NEW ORLEANS
611 N. RAMPART ST. • NEW ORLEANS, LA. 70112 • (504) 584-1111 • FAX # (504) 584-1171

The Board of Directors
Covenant House New Orleans

Response to items cited in Ernst & Young's letter dated August 21, 1998 follows:

Payroll

Although the occurrence of retroactive adjustments was an isolated one, management agrees with the recommendation. Procedures have since been implemented which minimizes such adjustments and allows for approvals prior to the effective date. In addition, as indicated, the process of consolidating both payroll and human resource databases is close to completion.

October 8, 1998

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

Covenant House and Affiliates

Year ended June 30, 1998

ERNST & YOUNG LLP

Covenant House and Affiliates

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

Year ended June 30, 1998

Contents

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

Report of Independent Auditors

Board of Directors
Covenant House

We have audited the accompanying combined statements of financial position of Covenant House and Affiliates (the "Organization") as of June 30, 1998 and 1997, and the related combined statements of cash flows for the years then ended and the combined statements of activities and functional expenses for the year ended June 30, 1998. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Covenant House Toronto which statements reflect total assets of $9,484,640 and $10,487,545 as of June 30, 1998 and 1997 and total contributions and revenues of $7,520,884 for the year ended June 30, 1998. 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 audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the combined financial position of Covenant House and Affiliates at June 30, 1998 and 1997, and its combined cash flows for the years then ended and the changes in its combined net assets for the year ended June 30, 1998 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the accompanying combined financial statements, certain amounts previously reported as unrestricted net assets at June 30, 1997 were reclassified as temporarily restricted net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 1998 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 audits and that of other auditors were made for the purpose of forming an opinion on the combined financial statements of the Organization for the year ended June 30, 1998 taken as a whole. The accompanying combined schedule of expenditures of federal awards for the year ended June 30, 1998 and Schedule of State of New Jersey Assistance for the year ended June 30, 1998 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* and the State of New Jersey and are not a required part of the 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, 1998 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 28, 1998

Covenant House and Affiliates

Combined Statements of Financial Position

	June 30	
	1998	**1997**
Assets		
Cash and cash equivalents	**$ 14,758,737**	$ 17,680,861
Short-term investments *(Note 7)*	**4,101,048**	3,274,889
Short-term contributions receivable *(Note 5)*	**2,777,430**	1,804,756
Grants receivable *(Note 6)*	**1,564,061**	1,498,035
Other receivables	**1,174,423**	942,076
Inventory	**542,182**	770,561
Prepaid expenses *(Note 16)*	**2,074,636**	1,275,721
Property held for sale *(Note 8)*	**806,297**	801,987
Property, plant and equipment, net *(Note 8)*	**57,609,529**	56,721,070
Long-term contributions receivable *(Notes 5 and 10)*	**3,155,749**	1,798,065
Long-term investments *(Notes 7 and 10)*	**52,250,735**	42,278,577
Other assets	**708,653**	662,202
Total assets	**$ 141,523,480**	$ 129,508,800
Liabilities and net assets		
Accounts payable, accrued expenses and refundable advances	**$ 7,288,693**	$ 7,172,949
Annuities payable *(Note 10)*	**2,046,565**	1,542,802
Debt obligations	**52,215**	56,466
Total liabilities	**9,387,473**	8,772,217
Commitments and contingencies *(Notes 6, 8, 18 and 19)*		
Net assets:		
Unrestricted:		
Undesignated	**18,263,380**	19,274,211
Investment in property, plant and equipment	**57,161,564**	56,408,840
Board designated	**44,911,878**	36,414,562
Total unrestricted	**120,336,822**	112,097,613
Temporarily restricted *(Note 12)*	**6,775,738**	3,615,523
Permanently restricted *(Note 13)*	**5,023,447**	5,023,447
Total net assets	**132,136,007**	120,736,583
Total liabilities and net assets	**$ 141,523,480**	$ 129,508,800

See accompanying notes.

Covenant House and Affiliates

Combined Statement of Activities

Year ended June 30, 1998 with summarized financial information
for the year ended June 30, 1997

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total 1998	Total 1997
Contributions, revenue and reclassifications:						
Contributions from individuals, foundations and corporations, including legacies and bequests of $5,853,194 ($6,704,938 in 1997)		$ 79,884,017	$ 3,713,103	$ –	**$ 83,597,120**	$ 75,715,988
Contributed services and merchandise		1,700,454	–	–	**1,700,454**	1,663,276
Government grants and contracts		7,707,373	49,026	–	**7,756,399**	8,114,384
Special events revenue						
Less direct costs of events	$ 2,617,184					
Net special events income	488,057	2,129,127	–	–	**2,129,127**	1,952,531
Total contributions		91,420,971	3,762,129	–	**95,183,100**	87,446,179
Revenue:						
Investment income:						
Interest and dividends		2,852,347	85,633	–	**2,937,980**	2,753,297
Net unrealized gains		2,871,852	–	–	**2,871,852**	1,846,834
Net realized gains		956,706	–	–	**956,706**	800,964
Change in value of split interest agreements (including net unrealized gains of $203,474 and $232,600 in 1998 and 1997, respectively)		–	138,542	–	**138,542**	47,286
Other income and gains		1,106,997	1,492	–	**1,108,489**	1,220,042
Total revenue		7,787,902	225,667	–	**8,013,569**	6,668,423
Total contributions and revenue		99,208,873	3,987,796	–	**103,196,669**	94,114,602
Reclassifications *(Note 14)*:						
Net assets released from restrictions		827,581	(827,581)	–	–	–
Total contributions, revenue and reclassifications		100,036,454	3,160,215	–	**103,196,669**	94,114,602
Expenses *(Notes 4, 15 and 16)*:						
Program services		63,969,282	–	–	**63,969,282**	55,779,061
Supporting services:						
Management and general		9,004,099	–	–	**9,004,099**	7,967,356
Fund-raising		18,250,917	–	–	**18,250,917**	16,739,731
Total supporting services		27,255,016	–	–	**27,255,016**	24,707,087
Total expenses		91,224,298	–	–	**91,224,298**	80,486,148
Current year translation adjustment *(Note 11)*		572,947	–	–	**572,947**	115,853
Total expenses and translation adjustment		91,797,245	–	–	**91,797,245**	80,602,001
Change in net assets before cumulative effect of change in accounting principle		8,239,209	3,160,215	–	**11,399,424**	13,512,601
Cumulative effect of change in accounting principle *(Note 2)*		–	–	–	–	550,000
Change in net assets		8,239,209	3,160,215	–	**11,399,424**	14,062,601
Net assets beginning of year, as restated		112,097,613	3,615,523	5,023,447	**120,736,583**	106,673,982
Net assets end of year		$120,336,822	$ 6,775,738	$ 5,023,447	**$ 132,136,007**	$ 120,736,583

See accompanying notes.

Covenant House and Affiliates

Combined Statement of Functional Expenses

Year ended June 30, 1998 with summarized financial information for the year ended June 30, 1997

	Program Services								
	Shelter and Crisis Care	Outreach	Mother/Child	Nineline	Medical	Community Service Center	Public Education	Rights of Passage	Program Total
Salaries and wages	$ 14,908,848	$ 1,217,802	$ 2,659,354	$ 1,537,292	$ 1,329,528	$ 4,216,175	$ 956,110	$ 5,102,511	$ 31,927,620
Payroll taxes	1,415,871	121,832	251,366	116,934	119,496	365,600	71,086	439,470	2,901,655
Employee benefits *(Note 16)*	1,931,878	147,531	326,212	214,699	155,449	476,105	82,705	537,791	3,872,370
Total salaries and related expenses	18,256,597	1,487,165	3,236,932	1,868,925	1,604,473	5,057,880	1,109,901	6,079,772	38,701,645
Faith community costs *(Note 15)*	375,320	11,316	95,474	–	35,866	40,535	–	134,786	693,297
Accounting fees	4,408	1,313	–	–	–	1,500	563	750	8,534
Legal fees	37,447	5,342	2,790	8,938	1,337	5,296	3,233	19,146	83,529
Medical fees	85,634	3,528	180	14	317,421	690	96	2,202	409,765
Consulting fees	471,487	24,362	8,336	104,556	3,985	72,913	141,731	100,266	927,636
Supplies	574,450	23,069	69,652	49,320	62,118	129,675	28,444	287,155	1,223,883
Telephone	431,069	49,889	53,064	367,484	21,086	185,424	22,613	154,395	1,285,024
Postage and printing	203,938	20,748	10,719	36,356	7,011	42,641	3,039,197	26,848	3,387,458
Occupancy:									
Fuel and utilities	622,161	16,531	135,110	14,266	27,941	79,681	2,558	482,047	1,380,295
Repairs and maintenance	282,223	15,980	55,427	1,121	15,826	33,447	4,491	102,496	511,011
Contributed facilities	96,000	–	–	–	–	–	–	2,160	98,160
Rent and other	499,326	122,957	47,784	5,977	8,725	405,173	38,979	268,306	1,397,227
Equipment	590,306	33,313	59,775	51,503	25,743	112,903	27,721	137,373	1,038,637
Transportation	305,686	65,868	27,316	41,398	8,044	118,058	59,069	111,476	736,915
Specific assistance to individuals:									
Food	1,298,868	48,498	204,283	–	3,751	112,140	18,546	242,180	1,928,266
Medical	36,677	1,985	75	–	122,998	4,375	23	7,772	173,905
Contributed medical	–	–	–	–	903,408	389	–	657	904,454
Clothing, allowance and other	968,244	73,013	109,086	–	8,230	381,927	38,589	368,191	1,947,280
Contributed clothing and merchandise	255,223	3,000	87,809	–	–	50,306	2,609	73,367	472,314
Temporary help	105,479	2,317	8,529	213	3,501	9,489	5,440	22,385	157,353
Other purchased services	366,948	15,839	50,773	22,942	19,587	177,833	674,336	108,965	1,437,223
Dues, licenses and permits	22,658	2,509	1,524	9,246	2,887	7,062	4,796	8,555	59,237
Subscriptions and publications	18,066	1,839	2,935	3,883	3,006	10,402	5,347	7,866	53,344
Staff recruitment	64,017	4,301	7,144	–	4,297	22,613	994	18,116	121,482
Insurance	157,364	16,555	33,329	–	45,970	34,361	4,356	77,944	369,879
Contributed services	191,693	11,207	46	–	41,860	10,563	2,746	16,208	274,323
Miscellaneous	358,739	22,530	27,517	84,454	16,903	89,997	53,994	139,490	793,624
Bank charges and fees	200	–	27	47	–	280	–	19	573
Interest	5,002	201	–	–	10	29	38	677	5,957
Loss on foreign currency	–	–	–	–	–	–	–	–	–
Total functional expenses before depreciation and amortization	26,685,230	2,085,175	4,335,636	2,670,643	3,315,984	7,197,582	5,290,410	9,001,570	60,582,230
Depreciation and amortization	1,913,871	53,237	110,099	235,999	215,983	270,108	31,101	556,654	3,387,052
Less cost of direct benefit of special events	–	–	–	–	–	–	–	–	–
Total expenses reported by function on the statement of activities	$ 28,599,101	$ 2,138,412	$ 4,445,735	$ 2,906,642	$ 3,531,967	$ 7,467,690	$ 5,321,511	$ 9,558,224	$ 63,969,282

See accompanying notes.

5-A

Supporting Services			Total	
Management and General	Fund Raising	Total	1998	1997
$ 4,278,588	$ 3,506,907	$ 7,785,495	$ 39,713,115	$ 34,167,463
400,415	282,950	683,365	3,585,020	3,345,553
657,907	439,864	1,097,771	4,970,141	4,206,025
5,336,910	4,229,721	9,566,631	48,268,276	41,719,041
-	-	-	693,297	674,791
314,103	563	314,666	323,200	352,864
23,424	6,038	29,462	112,991	170,609
36	54	90	409,855	398,612
389,294	2,094,040	2,483,334	3,410,970	2,796,468
162,641	85,703	248,344	1,472,227	1,065,849
223,161	319,309	542,470	1,827,494	1,350,391
65,323	8,366,780	8,432,103	11,819,561	10,946,077
180,511	58,856	239,367	1,619,662	1,592,675
61,696	16,226	77,922	588,933	810,338
49,884	-	49,884	148,044	145,940
141,695	57,751	199,446	1,596,673	1,233,824
299,704	207,742	507,446	1,546,083	1,389,215
132,146	79,323	211,469	948,384	841,195
8,653	10,703	19,356	1,947,622	1,764,762
1,782	2,049	3,831	177,736	292,528
-	-	-	904,454	932,891
10,378	13,533	23,911	1,971,191	1,808,916
22,088	2,677	24,765	497,079	324,804
88,969	12,959	101,928	259,281	323,876
198,280	2,178,644	2,376,924	3,814,147	3,781,461
27,471	10,605	38,076	97,313	77,536
22,664	16,124	38,788	92,132	103,447
27,855	1,718	29,573	151,055	153,470
150,676	5,317	155,993	525,872	601,315
35,547	35,149	70,696	345,019	305,546
171,031	114,786	285,817	1,079,441	836,568
160,973	483,412	644,385	644,958	523,908
9,159	11,707	20,866	26,823	28,720
106,393	-	106,393	106,393	38,009
8,422,447	18,421,489	26,843,936	87,426,166	77,385,646
581,652	317,485	899,137	4,286,189	3,780,543
-	488,057	488,057	488,057	680,041
$ 9,004,099	$ 18,250,917	$ 27,255,016	$ 91,224,298	$ 80,486,148

Covenant House and Affiliates

Combined Statements of Cash Flows

	Year ended June 30 1998	1997
Cash flows from operating activities		
Change in net assets	$ 11,399,424	$ 14,062,601
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	–	(550,000)
Current year translation adjustment	572,947	115,853
Contribution of investments	(24,287)	(21,468)
Contributed occupancy costs	23,591	22,048
Contribution restricted for building construction	(2,051,946)	(432,500)
Unrealized and realized gains on investments	(3,828,558)	(2,647,798)
Noncash contributions under split-interest agreements	–	(67,902)
Unrealized gains on investments as a component of change in value of split-interest agreements	(203,474)	(232,600)
Amortization of discount on annuities and receivables	64,932	185,314
Depreciation and amortization	4,286,189	3,780,543
Use of contributed inventory	170,551	73,369
Contributed property, plant and equipment	(26,150)	(23,975)
Gain on sale of fixed assets and property held for sale	–	(112,723)
Loss on disposal of fixed assets	298	–
Changes in operating assets and liabilities:		
Contributions receivable	(718,241)	(729,520)
Grants receivable	(77,177)	(294,959)
Other receivables	(271,135)	152,797
Inventory	57,828	32,107
Prepaid expenses	(803,928)	(187,558)
Other assets	17,385	(39,230)
Accounts payable, accrued expenses and refundable advances	31,845	(101,889)
Annuities payable	414,032	269,931
Net cash provided by operating activities	9,034,126	13,252,441
Cash flows from investing activities		
Purchases of investments, net	(6,753,208)	(7,432,254)
Increase in security deposits	(65,000)	–
Purchases of property, plant and equipment and construction in progress	(5,579,736)	(6,516,359)
Proceeds from sale of property held for sale	–	183,063
Proceeds from sale of property, plant and equipment	6,122	20,784
Net cash used in investing activities	(12,391,822)	(13,744,766)
Cash flows from financing activities		
Contributions restricted for building construction	439,823	432,500
Payment of long-term debt and other debt obligations	(4,251)	(66,281)
Net cash provided by financing activities	435,572	366,219
Net decrease in cash and cash equivalents	(2,922,124)	(126,106)
Cash and cash equivalents at beginning of year	17,680,861	17,806,967
Cash and cash equivalents at end of year	$ 14,758,737	$ 17,680,861

See accompanying notes.

Covenant House and Affiliates

Notes to Combined Financial Statements

June 30, 1998

1. Organization and Basis of Combination

Organization

Covenant House is a not-for-profit organization which was founded in 1968 and incorporated in 1972. Covenant House and its affiliates provided shelter, food, clothing, counseling, medical attention, crisis intervention, public education and other services to over 50,000 runaway and homeless youths during fiscal 1998. 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
Testamentum

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

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

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

1. Organization and Basis of Combination (continued)

Basis of Combination

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

2. Summary of Significant Accounting Policies

During 1997, Covenant 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 $550,000 as of July 1, 1996.

Fund Accounting and Net Asset Classifications

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

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

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

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 statements of financial position, Covenant House's Board of Directors has designated a portion of the unrestricted net assets of Covenant House for long-term investment purposes.

The accompanying combined financial statements have been reclassified to reflect approximately $752,000 of Covenant House's unrestricted net assets as of June 30, 1997 as temporarily restricted net assets to properly reflect the existence of restrictions on such funds.

Functional Expense Allocation

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

Revenue Recognition

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

Temporarily Restricted Contributions

Covenant House records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the

2. Summary of Significant Accounting Policies (continued)

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.

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 2001. 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.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Investments and Investment Income

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

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

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

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

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

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.

Supplemental Disclosure of Cash Flow Information

Contributions receivable at June 30, 1998 amounting to $1,612,123 related to contributions restricted for the acquisition of property and equipment.

Summarized Financial Information for Fiscal 1997 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, 1997, from which the summarized information was derived.

Certain 1997 amounts have been reclassified to conform to the current fiscal year presentation.

3. Components of Program and Supporting Services

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

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

3. Components of Program and Supporting Services (continued)

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

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

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

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

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

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

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

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

4. Allocation of Joint Costs

The joint costs of certain informational mailings that contain an appeal for funds are allocated between the public education program and fund-raising. Of the total joint costs of approximately \$3.5 million incurred in 1998, approximately \$1.9 million was allocated to public education.

5. Contributions Receivable

At June 30, 1998 and 1997, contributions receivable, net of estimated uncollectible amounts, and discounted to present value, are due to be collected as follows:

	1998	1997
One year	**$ 2,777,430**	$ 1,804,756
One to five years	**1,571,830**	425,900
More than five years	**1,583,919**	1,372,165
	$ 5,933,179	$ 3,602,821

Included in contributions receivable at June 30, 1998 and 1997 is approximately $1,011,000 and $1,034,000, respectively, discounted to present value, relating to the fair value of rent-free use of a facility in Anchorage, Alaska contributed by an unrelated third party.

6. Grants and Contracts

Grants receivable at June 30, 1998 and 1997 of $1,564,061 and $1,498,035, respectively, are expected to be collected within one year.

During fiscal 1998, 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, 1998, Covenant House had been approved for a number of government cost reimbursable grants in which conditions stipulated in the grant agreements have not been met. Accordingly, these grants are considered conditional promises to give and are not included in the accompanying combined financial statements.

7. Investments

Investments at June 30, 1998 consist of the following:

	Short-term	Long-term	Total
Cash and cash equivalents	$ 260,000	$ 8,215,389	$ 8,475,389
Common stocks	281,897	15,286,804	15,568,701
U.S. government securities	3,352,862	20,269,156	23,622,018
Corporate debt securities	–	3,237,374	3,237,374
Mutual funds	83,817	4,516,783	4,600,600
Beneficial interests in trusts held in perpetuity	–	624,300	624,300
Other	58,367	100,929	159,296
	4,036,943	52,250,735	56,287,678
Real estate held for sale	64,105	–	64,105
	$ 4,101,048	$ 52,250,735	$ 56,351,783

As of August 31, 1998, the fair value of the Covenant House's long-term investments approximated $49.3 million.

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	206,630	8,139,827	8,346,457
U.S. government securities	1,676,895	19,285,647	20,962,542
Corporate debt securities	–	74,670	74,670
Mutual funds	1,229,412	4,150,816	5,380,228
Beneficial interests in trusts in perpetuity	–	624,300	624,300
Other	–	478,148	478,148
	3,211,284	42,278,577	45,489,861
Real estate held for sale	63,605	–	63,605
	$ 3,274,889	$ 42,278,577	$ 45,553,466

8. Property, Plant and Equipment

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

	1998	1997
Land	**$22,429,930**	$22,016,354
Buildings	**22,511,128**	21,162,024
Building improvements	**19,977,780**	18,604,335
Equipment	**13,537,279**	12,293,158
Equipment under capital leases	**2,672,996**	2,634,596
Leasehold improvements	**11,841,124**	11,111,147
Construction in progress	**232,590**	1,407,208
	93,202,827	89,228,822
Less accumulated depreciation and amortization (including accumulated amortization on equipment under capital leases of $2,644,158 and $2,604,460 at June 30, 1998 and 1997, respectively)	**35,593,298**	32,507,752
	$57,609,529	$56,721,070

Included in property held for sale on the accompanying combined statements of financial position is approximately $802,000 which represents the carrying value of property owned by CIF. Subsequent to June 30, 1998, this property was sold. CIF recorded a gain of approximately $1.7 million on the sale. This gain will be recognized in fiscal 1999.

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

8. Property, Plant and Equipment (continued)

Covenant House Alaska entered into an agreement in June 1997 to purchase a building for use as a Youth Resource Center from a not-for-profit agency. The purchase was scheduled for September 1997. Due to delayed funding from the United States Department of Housing and Urban Development ("HUD") in December 1997, Covenant House Alaska entered into an agreement with another not-for-profit agency and the National Bank of Alaska ("NBA") pursuant to which the other not-for-profit agency obtained a loan from NBA in the amount of \$608,000 to purchase the building on Covenant House Alaska's behalf. Covenant House Alaska acted as a guarantor to the loan, and agreed to pay the purchase price of the building (\$608,000) and related seller's expenses to NBA on or before the earlier of one year from the date of the agreement or funding of the purchase price by HUD. The HUD grant was authorized in June 1998 and the purchase price of the building and the related selling expenses were drawn down on July 20, 1998, at which time Covenant House Alaska purchased the building from the not-for-profit agency. The remainder of the HUD grant is to be used for operations and building improvements of the Youth Resource Center. The estimated cost of building improvements and the purchase of equipment and furnishings is approximately \$690,000. This amount includes commitments of \$525,000 made by Covenant House Alaska at June 30, 1998. Funding sources in fiscal year 1999 to cover these commitments include a Community Development Block Grant for \$227,765 and the remaining \$392,000 of the \$1.0 million HUD grant noted above.

In March 1998, CHNJ entered into a contract to purchase a building to be used for a new Crisis Center in Newark. The purchase price of the building is \$675,000. A \$65,000 security deposit was made as of June 30, 1998 and is included in other assets in the accompanying combined statement of financial position.

9. Line of Credit

Covenant House has an unsecured line of credit agreement with Chase Manhattan Bank ("Chase") to borrow up to an aggregate amount of \$1,000,000. Interest is payable at the Chase prime rate. There are no outstanding borrowings at June 30, 1998 and 1997. There were no borrowings under this facility during fiscal 1998.

10. Split-interest Agreements

Covenant House is the beneficiary in a number of split-interest agreements with donors. Covenant House may control donated assets and may share with the donor or the donor's designee income generated from those assets until such time as stated in the agreement (usually upon the death of the donor or the donor's designee) at which time the remaining assets are generally unrestricted for Covenant House's use. Covenant House also has beneficial interests in certain perpetual trusts administered by a third party (valued at approximately $624,000 at June 30, 1998 and 1997, respectively, included in long-term investments).

Covenant House records the assets arising from the agreements on its combined statements of financial position (at fair value) if the assets are controlled and invested by Covenant House. Covenant House records contribution income and a liability for amounts payable to annuitants using an actuarial calculation at the time of the gift. Adjustments to the actuarial calculation for changes in assumptions are made annually. The discount rates used in the calculation at June 30, 1998 and 1997 ranged from 6.0% to 8.9%.

At June 30, 1998 and 1997, approximately $3.5 million and $2.6 million, respectively, of long-term assets and $2.0 million and $1.5 million, respectively, 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, 1998 and 1997, long-term receivables relating to such agreements were approximately $754,000 and $507,000, respectively.

11. Foreign Currency Translation

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

11. Foreign Currency Translation (continued)

For the affiliates whose functional currency has been determined to be the local currency, assets and liabilities are translated using the exchange rates in effect at the combined statement of financial position date. Operations are translated based on a weighted average exchange rate for the fiscal period. The resulting translation gains and losses are reported as a component of the applicable net asset classification. At June 30, 1998 and 1997, accumulated translation losses were approximately $1.7 million and $1.2 million, respectively.

At June 30, 1998 and 1997, 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 purpose and time restrictions:

	1998	1997
Purpose restrictions:		
Purchase and renovation of the Crisis Center	**$ 2,010,946**	$ –
Covenant House California program restrictions	**64,500**	193,500
Donation Kinderhilfe Alemania	–	129,458
Other donor-imposed purpose restrictions	**558,957**	401,841
Time restrictions:		
Donated use of facility	**1,010,823**	1,034,414
Split-interest agreements	**2,214,817**	1,505,101
Other time restrictions	**924,695**	351,209
	$ 6,775,738	$3,615,523

13. Permanently Restricted Net Assets

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

14. Reclassification of Net Assets

Net assets were released from donor restrictions during fiscal 1998 by incurring expenses satisfying purpose restrictions or time elapsing as specified by donors as follows:

Purpose restrictions satisfied:	
Covenant House California program restrictions	$ 193,500
Donation Kinderhilfe Alemania	129,458
Other donor-imposed purpose restrictions	248,539
Time restrictions elapsed:	
Donated use of facility	23,591
Split-interest agreements	111,062
Other time restrictions	121,431
	$ 827,581

15. Faith Community

Contributed services were provided by Covenant House Faith Community ("Community") members. Community members are full-time volunteers who commit themselves to a year of service to runaway and homeless youth. Room and board, $15 stipend per week, health insurance and reimbursement for other personal expenses are provided to Community members. The expenses associated with Community members were approximately $693,000 for the year ended June 30, 1998 and are reported in the accompanying combined financial statements. The value of contributed services performed by Community members was approximately $632,000 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.

16. Pension Plan (continued)

Total pension expense for the Plan for fiscal year 1998 included the following:

Service cost—benefits earned during the year	$ 986,332
Interest cost on projected benefit obligation	781,653
Actual return on plan assets	(1,545,819)
Net amortization and deferral	556,929
Total pension cost	$ 779,095

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

	1998	1997
Accumulated benefit obligation, including vested benefits of $7,337,208 and $6,487,653 at June 30, 1998 and 1997, respectively	**$ 7,787,886**	$ 6,836,017
Projected benefit obligation for service rendered to date	**$ 11,294,335**	$ 9,854,741
Plan assets at fair value	**13,960,418**	11,643,291
Plan assets in excess of projected benefit obligation	**2,666,083**	1,788,550
Unrecognized prior service cost being amortized over 15 years	**160,207**	192,247
Unrecognized net loss from past experience different from that assumed	**(1,558,871)**	(1,184,478)
Unrecognized net asset being recognized over 15 years	**(234,463)**	(293,078)
Prepaid pension expense	**$ 1,032,956**	$ 503,241

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation at June 30, 1998 and 1997 were 7.25% and 5%, respectively. The expected long-term rate of return on assets was 8% for1998.

In addition to the above, one of the domestic affiliates maintains a defined contribution plan for substantially all of its employees. The affiliate contributes 4% of eligible employees' compensation plus a matching contribution equal to 50% of the employees' contribution. The expense related to the defined contribution plan was approximately $68,000 during the year ended June 30, 1998.

16. Pension Plan (continued)

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

17. Tax-Exempt Status

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

18. Commitments

Covenant House 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, 1998 are approximately as follows:

Year ending June 30:	
1999	$ 570,000
2000	215,000
2001	184,000
2002	66,000
	$ 1,035,000

19. Contingencies

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

20. Impact of Year 2000 (Unaudited)

During the past year, Covenant House reviewed all of its computer programs and determined that some were not "Year 2000 (Y2K) Compliant," i.e., they had been written using two digits rather than four to define the applicable year. As a result, those programs having time-sensitive calculations could not differentiate the year 2000, designated as "00," from the year 1900. Left unchanged, this situation could have resulted in miscalculations or other system malfunctions.

Subsequently, Covenant House made the necessary changes to its software. The cost associated with these changes was not material. Covenant House believes it is "Y2K Compliant" and is presently in the process of testing its updated programs.

Other Financial Information

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards

Year ended June 30, 1998

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1998 Expenditures
	U.S. Department of Housing and Urban Development			
	Community Development Block Grants/Entitlement Grants:			
Covenant House Alaska	Municipality of Anchorage Community Development Department	14.218	B96KC020001	$ 2,545
Covenant House California	Los Angeles Community Development Department	14.218	95335	46,021
				48,566
	Community Development Block Grants/State's Programs:			
Covenant House New Orleans	City of New Orleans	14.228	ESG-017B	50,983
Covenant House New Orleans	City of New Orleans	14.228	ESG-013F	50,469
				101,452
	Emergency Shelter Grants Program:			
Covenant House Texas	Child Care Council of Greater Houston	14.231	FC 33544	119,406
Covenant House Texas	Emergency Shelter Grants Program	14.231	427281	59,453
				178,859
	Supportive Housing Program:			
Covenant House California	Los Angeles Housing Authority	14.235	CA16N15-1121	330,472
Covenant House California	Supportive Apartment Housing Program	14.235	CA1613960043	76,894
Covenant House Alaska	Received directly	14.235	N/A	45,989
Covenant House Florida	Received directly	14.235	N/A	211,436
Covenant House Florida	Homeless Services Network of Orange County, Inc.	14.235	FL29B96-0703	84,235
Covenant House New Orleans	Received directly	14.235	N/A	118,634
Covenant House New Orleans	Received directly	14.235	N/A	63,028
Covenant House New Orleans	Received directly	14.235	N/A	48,263

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1998 Expenditures
	U.S. Department of Housing and Urban Development (continued)			
	Supportive Housing Program (continued):			
Covenant House New Orleans	Received directly	14.235	N/A	$ 15,214
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA481950191	59,392
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA22B970202	7,168
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B961401	86,285
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B950817B	44,124
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	14.235	TX21B95-0243-B	40,982
Covenant House Texas	Harris County Housing and Community Development Agency	14.235	TX21K150990	85,129
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	14.235	TX21B960617	44,497
Under 21	Received directly	14.235	N/A	1,563,114
				2,924,856
	Housing Opportunity for Persons with AIDS:			
Covenant House California	City of Los Angeles Health and Human Services	14.241	CA16H95-F061	26,240
Covenant House California	City of Los Angeles Health and Human Services	14.241	C-96701	12,012
				38,252
	Innovative Homeless Initiative Demonstration Program:			
Covenant House California	Salvation Army of Los Angeles	14.245	CA16195-0234	6,767
	Total U.S. Department of Housing and Urban Development			3,298,752

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1998 Expenditures
	U.S. Department of Health and Human Services			
	Projects for Assistance in Transition from Homelessness:			
Covenant House New Orleans	Outreach Program	93.150	523308	$ 38,851
	Project Grants for Health Services to the Homeless:			
Under 21	Received directly	93.151	N/A	211,947
	HIV Demonstrating Program for Children, Adolescents, and Women:			
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	93.153	PEDFY97	32,780
	Transitional Living for Homeless Youth:			
Covenant House New Jersey	Received directly	93.550	N/A	151,507
	Street Outreach Program for Runaway and Homeless Youth:			
Covenant House California	Los Angeles Youth Network	93.557	90Y0200301	15,119
	Job Opportunities and Basic Skills Training:			
Covenant House New Orleans	FINDWORK	93.561	523249	44,115
	Comprehensive Runaway and Homeless Youth:			
Covenant House Florida	Centers for Disease Control and Prevention	93.623	04CY0621/1	25,097
	Foster Care-Title IV-E:			
Under 21	City of New York Administration for Children Services	93.658	9561316	313,102

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1998 Expenditures
	U.S. Department of Health and Human Services (continued)			
	Housing Opportunities for Persons With AIDS:			
Covenant House California	City of Los Angeles Department of Health and Human Services	93.940	H206335	$ 31,966
Covenant House California	City of Los Angeles Department of Health and Human Services	93.940	H206336	46,176
				78,142
	Block Grants for the Prevention and Treatment of Substance Abuse:			
Covenant House Florida	Florida Department of Health and Rehabilitative Services	93.959	JH410	43,050
Covenant House New Jersey	State of New Jersey Department of Health and Senior Services	93.959	97-669-ADA-00	22,149
				65,199
	Louisiana Department of Social Services—Office of Community Services:			
Covenant House New Orleans	Family Preservation and Respite	N/A	58-1669937	27,867
	Total U.S. Department of Health and Human Services			1,003,726
	U.S. Department of Agriculture			
	Food Distribution:			
Covenant House Alaska	Alaska Department of Education	10.550	AK-016921251	1,492

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1998 Expenditures
	U.S. Department of Agriculture (continued)			
	Nutrition Cluster:			
	School Breakfast Program:			
Covenant House Alaska	Alaska Department of Education	10.553	AK-016921251	$ 13,066
Covenant House Florida	Florida Department of Education	10.553	01-1237	32,393
Covenant House New Orleans	Louisiana Department of Education	10.553	7547	35,665
Under 21	New York State Department of Education	10.553	706139	111,191
	National School Lunch Program:			
Covenant House Alaska	Alaska Department of Education	10.555	AK-016921251	28,760
Covenant House Florida	Florida Department of Education	10.555	01-1237	41,414
Under 21	New York State Department of Education	10.555	706139	77,125
				339,614
	Total U.S. Department of Agriculture			341,106
	Federal Emergency Management Association			
	Federal Emergency Management Food and Shelter Program:			
Covenant House Alaska	United Way	83.523	14-0188-0-LR0-14	7,200
Covenant House California	United Way	83.523	LRO 163	33,000
Covenant House New Orleans	United Way	83.523	16-3658-024	4,972
Covenant House Florida	United Way	83.523	16-1570-00-LRO-17	25,000
Covenant House Texas	United Way	83.523	15.7828.00	48,047
Under 21	United Way	83.523	16-6314-030	10,000
	Total Federal Emergency Management Association			128,219
	Total Federal Awards			$ 4,771,803

Covenant House and Affiliates

Schedule of State of New Jersey Assistance

Year ended June 30, 1998

Award Recipient	New Jersey Grantor/Program Title	NJ Grant Number	1998 Expenditures
Covenant House New Jersey	State of New Jersey Department of Health and Senior Services, Division of Alcohol, Drug Abuse, and Addiction Services—Primary Prevention of Alcoholism and Drug Abuse:	97-669-ADA-00	
	Salaries		$ 19,327
	Fringe benefits		2,822
			22,149
Covenant House New Jersey	State of New Jersey Department of Health and Senior Services passed through City of Atlantic City—Atlantic City Partnership for the Prevention of HIV/AIDS:	980746-AIDS-00	
	Salaries		30,280
	Fringe benefits		8,478
	OTPS-Program expenses		5,987
	Office expense		233
			44,978
Covenant House New Jersey	State of New Jersey Department of Human Services, Division of Youth and Family Services:	CYA285	
	Salaries		24,423
	Fringe benefits		6,839
	OTPS-Program expenses		5,000
			36,262
	Total State of New Jersey Assistance		$103,389

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

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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
Covenant House

We have audited the combined financial statements of Covenant House and Affiliates (the "Organization") as of and for the year ended June 30, 1998, and have issued our report thereon, which expressed reliance on other auditors, dated September 28, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the combined financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Organization in separate letters as indicated in the accompanying schedule of letters to management.

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

Ernst + Young LLP

September 28, 1998

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

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

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 its major federal program for the year ended June 30, 1998. The Organization's major federal program is 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 the major federal program 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit 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 its major federal program for the year ended June 30, 1998.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we 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 solely for the information and use of the Organization's audit committee, management, federal awarding agencies, pass-through grantors and the State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 28, 1998

Covenant House and Affiliates

Schedule of Findings and Questioned Costs

Year ended June 30, 1998

Part I—Summary of Auditor's Results Section

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

CFDA Number(s) or Contract Number	Name of Federal Program or Cluster
14.235	U.S. Department of Housing and Urban Development: Supportive Housing Program

Part II—Schedule of Financial Statement Findings

None.

Part III—Schedule of Federal Award Findings and Questioned Costs

None.

Covenant House and Affiliates

Schedule of Letters to Management

Year ended June 30, 1998

Covenant House Entity	Date Letter Issued
Covenant House (Parent Entity)	September 11, 1998
Under 21	August 14, 1998
Covenant House Alaska	August 27, 1998
Covenant House California	August 28, 1998
Covenant House Florida	July 31, 1998
Covenant House New Jersey	August 14, 1998
Covenant House New Orleans	August 21, 1998
Covenant House Texas	August 21, 1998

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701 Poydras Street
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Louisiana 70139-9869

Phone: 504 581 4200

The Board of Directors
Covenant House New Orleans

In planning and performing our audit of the financial statements of Covenant House New Orleans for the year ended June 30, 1998, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be a material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operations that we consider to be material weaknesses, as defined above.

We have the following comments on other matters.

Payroll

It was noted that certain pay rate changes were not processed on their effective dates. We understand the delay in processing was due to securing the board of directors' approval for the rate changes. This delay caused retroactive adjustments to be made in personnel salaries. We recommend that all approvals for pay rate changes be obtained prior to the effective date of the change to prevent the need for retroactive adjustments.

It was also noted that an employee changed positions within Covenant House New Orleans and his pay rate was decreased. The rate change was processed after the effective date. This delay caused retroactive adjustments to be made. We are aware that a plan is in place to combine the payroll and human resources databases so that in the future there will be no delay in the processing of pay rate changes.

* * * * *

This report is intended solely for the information and use of the board of directors. We would be pleased to discuss the above matters or respond to any questions, at your convenience.

Ernst + Young LLP

August 21, 1998

COVENANT HOUSE NEW ORLEANS
611 N. RAMPART ST. • NEW ORLEANS, LA. 70112 • (504) 584-1111 • FAX # (504) 584-1171

The Board of Directors
Covenant House New Orleans

Response to items cited in Ernst & Young's letter dated August 21, 1998 follows:

Payroll

Although the occurrence of retroactive adjustments was an isolated one, management agrees with the recommendation. Procedures have since been implemented which minimizes such adjustments and allows for approvals prior to the effective date. In addition, as indicated, the process of consolidating both payroll and human resource databases is close to completion.

October 8, 1998

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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, 1998, and have issued our report thereon dated August 21, 1998.

Statement on Auditing Standards No. 61, *Communication With Audit Committees*, requires the independent auditor to communicate to the board of directors certain information regarding the scope and results of the audit to assist the committee in overseeing the financial reporting and disclosure process for which management is responsible. This letter summarizes the reporting requirements of this statement for our 1998 audit.

Auditors' Responsibility Under Generally Accepted Auditing Standards

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

Our responsibility as your auditors is to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As such, our audit of the Covenant House New Orleans financial statements is not designed to determine Covenant House New Orleans readiness for the Year 2000. Further, we have no responsibility with regard to Covenant House New Orleans efforts to make its systems, or any other systems, such as those of vendors, service providers, or any other third parties Year 2000 ready, or to provide assurance on whether Covenant House New Orleans has addressed or will be able to address all affected systems on a timely basis.

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.

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 4, 1998