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Financial Statements

Covenant House New Orleans

Year ended June 30, 1999 with summarized financial information for the year ended June 30, 1998 with Report of Independent Auditors

COVENANT HOUSE

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court

Release Date 2-2-00

ERNST & YOUNG LLP

Covenant House New Orleans

Financial Statements

Year ended June 30, 1999 with summarized
financial information for the year ended June 30, 1998

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 statement of financial position of Covenant House New Orleans as of June 30, 1999, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Covenant House New Orleans' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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, 1999 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

October 12, 1999

Covenant House New Orleans

Statement of Financial Position

	June 30	
	1999	1998
Assets		
Cash and cash equivalents	$ 59,116	$ 116,957
Contributions receivable - short-term, net of allowances of $26,123 and $0 as of June 30, 1999 and 1998, respectively	45,735	105,686
Grants receivable	141,212	153,994
Other receivables	14,486	2,763
Contributed inventory	3,494	10,521
Prepaid expenses and other assets	135,758	85,879
Real estate held for resale	71,600	20,000
Land, building and equipment, net of accumulated depreciation of $1,120,173 in 1999 and $1,006,281 in 1998	1,150,718	992,068
Long-term investments	1,660,215	2,242,628
Total assets	$ 3,282,334	$ 3,730,496
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	$ 264,429	$ 207,921
Refundable advances	21,721	63,203
Due to Parent	175,868	187,510
Total liabilities	462,018	458,634
Net assets:		
Unrestricted:		
Board designated	1,660,215	2,242,628
Investment in land, building and equipment	1,150,718	992,068
Total unrestricted net assets	2,810,933	3,234,696
Temporarily restricted - designated projects	9,383	37,166
Total net assets	2,820,316	3,271,862
Total liabilities and net assets	$ 3,282,334	$ 3,730,496

See accompanying notes.

Covenant House New Orleans

Statement of Activities

Year ended June 30, 1999 with summarized
financial information for the year ended June 30, 1998

	Unrestricted	Temporarily Restricted Designated Projects	Total June 30 1999	Total June 30 1998
Contributions, revenue and reclassifications:				
Contributions:				
Contribution from Parent	$ 657,422	$ –	$ 657,422	$ 664,589
Contribution from individuals, foundations and corporations, including legacies and bequests totaling $252,184 in 1999 and $225,611 in 1998	2,597,151	8,458	2,605,609	2,535,097
Government grants and contracts	845,958	–	845,958	711,330
Contributed services and merchandise, including inventory adjustments	78,783	–	78,783	80,622
Special events revenue, net of direct costs of $28,711 in 1999 and $21,525 in 1998	38,058	–	38,058	31,296
Total contributions	4,217,372	8,458	4,225,830	4,022,934
Revenue:				
Investment income	173,817	–	173,817	314,010
Other income	55,518	–	55,518	26,616
Total revenue	229,335	–	229,335	340,626
Total contributions and revenue	4,446,707	8,458	4,455,165	4,363,560
Reclassifications:				
Net assets released from restrictions	36,241	(36,241)	–	–
Total contributions, revenue and reclassifications	4,482,948	(27,783)	4,455,165	4,363,560
Expenses:				
Program services	3,746,724	–	3,746,724	3,446,717
Supporting services:				
Management and general	560,306	–	560,306	512,901
Fund-raising	599,681	–	599,681	562,557
Total supporting services	1,159,987	–	1,159,987	1,075,458
Total expenses	4,906,711	–	4,906,711	4,522,175
Change in net assets	(423,763)	(27,783)	(451,546)	(158,615)
Net assets, at beginning of year	3,234,696	37,166	3,271,862	3,430,477
Net assets, at end of year	$ 2,810,933	$ 9,383	$ 2,820,316	$ 3,271,862

See accompanying notes.

Covenant House New Orleans

Statement of Functional Expenses

Year ended June 30, 1999 with summarized
financial information for the year ended June 30, 1998

	Program Services					
	Shelter and Crisis	Medical	Mother/ Child	Community Service Center	Rights of Passage	Outreach
Salaries and wages	$ 821,185	$ 95,709	$ 279,975	$ 288,949	$ 394,529	$ 55,679
Payroll taxes	76,588	8,589	26,031	27,407	35,528	5,090
Employee benefits	93,706	9,925	33,231	32,628	42,620	5,424
Total salaries and related expenses	991,479	114,223	339,237	348,984	472,677	66,193
Faith community costs	88,429	–	27,925	6,124	–	–
Legal fees	675	–	213	381	254	–
Medical fees	–	19,490	–	433	1,732	–
Consulting fees	1,843	30	582	5,545	640	–
Accounting fees	–	–	–	–	–	–
Supplies	32,427	2,334	10,613	15,200	12,231	483
Telephone	8,786	951	2,915	7,444	8,941	1,625
Postage, printing and mailing lists	2,619	288	827	1,446	1,050	137
Occupancy:						
Fuel and utilities	48,273	1,030	16,633	21,618	43,707	–
Repairs and maintenance	16,387	1,254	5,175	7,783	6,949	50
Rent and other	88,712	3,444	30,334	3,621	90,838	–
Equipment	14,809	1,292	4,694	9,270	8,931	–
Transportation	18,901	591	6,050	9,058	8,198	3,235
Specific assistance to individuals:						
Food	66,828	–	21,104	–	13,560	1,367
Medical	–	10,825	–	261	980	–
Donated medical	–	14,988	–	333	1,332	–
Clothing, allowances and other	22,052	21	7,327	12,155	11,998	154
Donated clothing and merchandise	11,791	–	3,723	–	–	–
Temporary help	11,512	811	3,635	980	3,379	–
Other purchased services	35,163	4,435	11,104	24,914	17,226	4
Dues, licenses and permits	2,115	421	713	1,150	1,004	–
Subscriptions and publications	1,058	550	341	633	626	–
Staff recruitment	1,407	697	444	1,013	250	270
Insurance	14,763	580	4,933	5,476	9,234	–
Donated services	9,028	24,362	2,851	4,861	4,827	–
Miscellaneous	3,561	245	1,249	2,919	1,694	122
Bank charges and fees	93	–	29	467	32	–
Total functional expenses before depreciation and amortization	1,492,711	202,862	502,651	492,069	722,290	73,640
Depreciation and amortization	27,922	1,705	7,876	38,133	11,853	3,760
Total functional expenses	1,520,633	204,567	510,527	530,202	734,143	77,400
Less direct costs of special events	–	–	–	–	–	–
Total expenses reported by function on statement of activities	$ 1,520,633	$ 204,567	$ 510,527	$ 530,202	$ 734,143	$ 77,400

	Public Education	Total Programs	Supporting Services: Management and General	Supporting Services: Fund-Raising	Total 1999	Total 1998
	$ 22,224	$ 1,958,250	$ 251,698	$ 150,893	$ 2,360,841	$ 2,125,952
	1,675	180,908	21,587	12,951	215,446	195,792
	2,277	219,811	30,292	17,318	267,421	237,805
	26,176	2,358,969	303,577	181,162	2,843,708	2,559,549
	–	122,478	–	–	122,478	115,050
	381	1,904	381	254	2,539	7,656
	–	21,655	–	–	21,655	27,465
	1,986	10,626	687	42,521	53,834	61,934
	–	–	32,800	–	32,800	30,250
	170	73,458	11,277	3,340	88,075	72,381
	327	30,989	22,519	7,362	60,870	55,677
	136,307	142,674	7,984	286,502	437,160	362,049
	–	131,261	11,730	2,479	145,470	146,228
	–	37,598	4,523	1,411	43,532	42,403
	–	216,949	26,956	5,760	249,665	244,723
	475	39,471	19,122	4,127	62,720	59,168
	1,815	47,848	6,488	5,799	60,135	60,292
	–	102,859	–	–	102,859	102,549
	–	12,066	–	–	12,066	15,818
	–	16,653	–	–	16,653	10,464
	–	53,707	–	–	53,707	54,485
	–	15,514	317	–	15,831	23,564
	–	20,317	8,649	1,048	30,014	41,921
	193	93,039	18,366	40,694	152,099	182,145
	70	5,473	72	1,432	6,977	3,354
	77	3,285	502	443	4,230	4,926
	–	4,081	616	14	4,711	6,256
	517	35,503	4,532	1,207	41,242	38,448
	–	45,929	340	–	46,269	46,730
	411	10,201	5,174	36,666	52,041	36,181
	–	621	55,819	479	56,919	33,401
	168,905	3,655,128	542,431	622,700	4,820,259	4,445,067
	347	91,596	17,875	5,692	115,163	98,633
	169,252	3,746,724	560,306	628,392	4,935,422	4,543,700
	–	–	–	(28,711)	(28,711)	(21,525)
	$ 169,252	$ 3,746,724	$ 560,306	$ 599,681	$ 4,906,711	$ 4,522,175

See accompanying notes.

Covenant House New Orleans

Statement of Cash Flows

	Year ended June 30	
	1999	**1998**
Operating activities		
Decrease in net assets	**$ (451,546)**	$ (158,615)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	**115,163**	98,633
Net unrealized gain on investments	**(41,351)**	(106,616)
Loss on disposition of equipment	**7,705**	296
Contributed building and equipment	**(77,300)**	(750)
Change in operating assets and liabilities:		
Receivables	**61,009**	(81,860)
Contributed inventory	**(29)**	136
Prepaid expenses and other assets	**(49,879)**	(30,034)
Accounts payable and accrued expenses	**56,508**	18,878
Refundable advances	**(41,482)**	17,903
Due to Parent	**(11,641)**	69,971
Net cash used in operating activities	**(432,843)**	(172,058)
Investing activities		
Acquisition of land, building and equipment	**(261,537)**	(94,034)
Proceeds from sale of equipment	**775**	400
Proceeds from sale of real estate held for resale	**12,000**	–
Purchases of long-term investments	**(109,912)**	(407,978)
Sales of long-term investments	**733,676**	671,270
Net cash provided by investing activities	**375,002**	169,658
Net decrease in cash and cash equivalents	**(57,841)**	(2,400)
Cash and cash equivalents at beginning of year	**116,957**	119,357
Cash and cash equivalents at end of year	**$ 59,116**	$ 116,957

See accompanying notes.

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. Other affiliated organizations are as follows:

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

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. Covenant House New Orleans had no permanently restricted net assets at June 30, 1999.

- 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 purposes of 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.

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

> *Cash and cash equivalents:* The carrying amounts reported in the 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.
>
> *Real estate held for sale:* Market values for real estate held for sale are not readily determinable and are shown at historical cost if purchased or estimated fair value at date of gift if donated.

See Note 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.

2. Significant Accounting Policies (continued)

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.

Contributions Receivable

Unconditional pledges to give that are expected to be collected within one year are recorded at net realizable value, net of an allowance of $26,123 as of June 30, 1999. 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, 1999, the discounts on those amounts are immaterial, and thus are not recorded.

Summarized Financial Information for Fiscal 1998

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, 1998, 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 $67,000 of $123,000 total joint costs in 1999 were allocated to Public Education.

4. Long-Term Investments

Long-term investments at June 30, 1999 consisted of:

	Market	Cost
Cash and cash equivalents	$ 89,126	$ 89,126
Common stocks	3,084	3,693
Debt securities	689,041	689,995
Mutual funds	878,964	465,131
	$ 1,660,215	$ 1,247,945

The following schedule summarizes unrestricted investment income for 1999:

Dividends and interest	$ 87,960
Net realized and unrealized gains	85,857
Investment return designated for current operations	$ 173,817

5. Land, Building and Equipment

	June 30 1999
Land	$ 100,500
Building and improvements	955,120
Furniture and equipment	1,215,271
	2,270,891
Less accumulated depreciation and amortization	(1,120,173)
	$ 1,150,718

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 1999 related to this grant totaled $15,000.

6. Government Grants

During fiscal 1999, Covenant House New Orleans received funding from government and private agencies as follows:

U. S. Department of Housing and Urban Development	$ 617,802
U. S. Department of Health and Human Services	129,188
U. S. Department of Agriculture	38,973
Federal Emergency Management Agency	5,186
City of New Orleans Economic Development Grant	26,396
State/Local Private Agencies	13,413
City of New Orleans Community Development Block Grant	15,000
	$ 845,958

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 $122,000 for the year ended June 30, 1999, and are reported in the accompanying financial statements. The value of services performed by Community members was approximately $124,000 in 1999 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 1999, Covenant House New Orleans received contributions from the Parent totaling $657,000. In addition, Covenant House New Orleans paid approximately $483,000 in 1999 to the Parent for fund-raising services.

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 $57,000 in 1999 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 1999.

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 $55,000 was allocated to Covenant House New Orleans from the Parent in fiscal 1999.

9. Impact of Year 2000 (Unaudited)

Over the last two fiscal years, Covenant House reviewed all of its computer programs and determined that some were not "Year 2000 (Y2K) Compliant." Where it deemed necessary, Covenant House replaced or made changes to existing software. In addition, Covenant House has contacted its significant third-party providers and believes that they are also "Y2K" compliant. Covenant House has completed testing its updated programs and is confident that all of its "mission critical" systems will remain operational in the new millennium. The cost associated with the review, updating and testing of these systems was not material.

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

Ernst + Young LLP

September 12, 1999

ERNST & YOUNG LLP

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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, 1999, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in 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.

* * * * *

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

Ernst + Young LLP

October 12, 1999

ERNST & YOUNG LLP

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Report 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 New Orleans

We have audited the financial statements of Covenant House New Orleans as of and for the year ended June 30, 1999, and have issued our report thereon dated September 12, 1999. 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 Covenant House New Orleans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Covenant House New Orleans' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 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.