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

Covenant House New Orleans

Year ended June 30, 2004



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

Release Date 4-13-05

Covenant House New Orleans

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

Year ended June 30, 2004

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Report of Independent Auditors

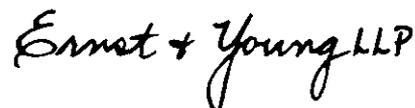
The Board of Directors
Covenant House New Orleans

We have audited the accompanying consolidated statements of financial position of Covenant House New Orleans as of June 30, 2004, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Covenant House New Orleans' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Covenant House New Orleans' 2003 consolidated financial statements and, in our report dated September 30, 2003, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covenant House New Orleans as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004 on our consideration of Covenant House New Orleans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



August 27, 2004

Covenant House New Orleans

Consolidated Statements of Financial Position

	June 30	
	2004	2003
		<i>(Restated)</i>
Assets		
Cash and cash equivalents	\$ 623,396	\$ 332,963
Assets held for sale	103,655	42,000
Short-term contributions receivable, net	10,000	30,267
Grants receivable	309,450	851,368
Other receivables, net of allowance for doubtful accounts of \$2,628 in 2004 and \$6,222 in 2003	42,201	78,159
Inventory	3,584	3,517
Prepaid expenses	209,542	252,095
Land, building, and equipment, net	1,163,536	988,533
Long-term investments	327,596	385,626
Long-term contributions receivable	19,475	10,000
Goodwill, net	124,255	-
Other assets	8,100	8,781
Total assets	\$ 2,944,790	\$ 2,983,309
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses, and refundable advances	\$ 294,304	\$ 878,492
Due to Parent	193,078	132,827
Other liabilities	35,049	88,414
Debt obligations	438,055	77,396
Total liabilities	960,486	1,177,129
Net assets:		
Unrestricted:		
Investment in land, building, and equipment	1,163,536	988,533
Board-designated for endowment purposes	753,087	774,702
Total unrestricted	1,916,623	1,763,235
Temporarily restricted	67,681	42,945
Total net assets	1,984,304	1,806,180
Total liabilities and net assets	\$ 2,944,790	\$ 2,983,309

See accompanying notes.

Covenant House New Orleans

Consolidated Statement of Activities

Year ended June 30, 2004, with summarized
financial information for the year ended June 30, 2003

	Unrestricted	Temporarily Restricted	Total	
			Year ended June 30 2004	Year ended June 30 2003 <i>(Restated)</i>
Contributions, revenue, and reclassifications:				
Contributions:				
Contribution from Parent	\$ 600,000	\$ -	\$ 600,000	\$ 832,397
Contributions from individuals, foundations, and corporations, including legacies and bequests totaling \$297,075 in 2004 and \$8,484 in 2003	2,914,416	67,681	2,982,097	2,512,914
Contributed services and merchandise	104,319	-	104,319	126,935
Government grants and contracts	1,779,370	-	1,779,370	3,715,602
Special events revenue, net of direct benefit to donor costs of \$30,751 in 2004 and \$17,770 in 2003	53,049	-	53,049	33,964
Total contributions	5,451,154	67,681	5,518,835	7,221,812
Revenue:				
Investment income:				
Interest and dividends	8,441	-	8,441	13,446
Net unrealized gains	29,151	-	29,151	20,805
Net realized gains (losses)	10,160	-	10,160	(31,901)
Covenant Cafe revenue, net of operating expenses of \$78,458 in 2004	133,329	-	133,329	-
Other income	72,034	-	72,034	86,587
Total revenue	253,115	-	253,115	88,937
Total contributions and revenue	5,704,269	67,681	5,771,950	7,310,749
Reclassifications:				
Net assets released from restrictions	42,945	(42,945)	-	-
Total contributions, revenue, and reclassifications	5,747,214	24,736	5,771,950	7,310,749
Expenses:				
Program service	4,279,544	-	4,279,544	6,330,153
Supporting services:				
Management and general	555,996	-	555,996	613,515
Fundraising	758,286	-	758,286	690,488
Total supporting services	1,314,282	-	1,314,282	1,304,003
Total expenses	5,593,826	-	5,593,826	7,634,156
Change in net assets	153,388	24,736	178,124	(323,407)
Net assets, at beginning of year	1,763,235	42,945	1,806,180	2,129,587
Net assets, at end of year	\$ 1,916,623	\$ 67,681	\$ 1,984,304	\$ 1,806,180

See accompanying notes.

Covenant House New Orleans

Consolidated Statement of Functional Expenses

Year ended June 30, 2004, with summarized
financial information for the year ended June 30, 2003

	Program Services					
	Shelter and Crisis Care	Outreach	Mother/ Child	Medical	Community Service Center	Public Education
Salaries and wages	\$ 865,936	\$ 100,331	\$ 251,338	\$ 47,970	\$ 851,003	\$ 21,311
Payroll taxes	87,835	9,859	25,435	4,542	80,060	1,694
Employee benefits	146,652	7,056	43,742	7,651	58,679	4,671
Total salaries and related expenses	1,100,423	117,246	320,515	60,163	989,742	27,676
Accounting fees	-	-	-	-	-	-
Legal fees	2,265	-	531	15	472	-
Medical fees	324	2,328	76	8,154	181	-
Consulting fees	7,071	-	2,000	28	7,363	5,773
Supplies	36,987	328	10,631	1,404	16,363	175
Telephone	10,818	2,787	2,884	431	7,439	307
Postage and printing	1,659	581	389	132	5,388	1,387
Occupancy:						
Fuel and utilities	50,906	86	13,710	1,184	21,064	-
Repairs and maintenance	20,656	-	4,845	1,723	9,537	18
Contributed facilities	-	-	-	-	-	-
Rent to Parent	93,064	-	25,181	3,279	1,630	-
Rent and other	10,426	-	2,445	178	5,254	-
Equipment	23,812	184	6,684	583	24,303	599
Transportation	22,127	13,618	5,199	909	9,448	422
Specific assistance to individuals:						
Food	78,374	1,773	18,384	-	32	-
Medical	-	-	-	8,097	239	-
Contributed medical	-	-	-	4,901	109	-
Clothing, allowances, and other	14,889	2,070	6,221	9	163,141	-
Contributed clothing and merchandise	13,161	-	3,087	22	22	-
Temporary help	2,475	-	580	306	3,008	-
Other purchased services	10,732	57	2,552	701	25,703	46
Dues, licenses, and permits	918	-	288	11	215	136
Subscriptions and publications	2,073	-	486	113	970	76
Staff recruitment	1,522	-	514	119	400	-
Insurance	26,297	-	7,117	946	11,139	1,191
Contributed services	1,134	-	266	71,955	1,707	-
Miscellaneous	5,904	540	1,561	101	2,682	255
Bank charges and fees	682	-	160	-	143	-
Interest	1,380	-	324	-	284	-
Total functional expenses before depreciation and amortization	1,540,079	141,598	436,630	165,464	1,307,978	38,061
Depreciation and amortization	37,836	10,279	9,343	759	31,292	254
Total functional expenses	1,577,915	151,877	445,973	166,223	1,339,270	38,315
Less direct costs of special events	-	-	-	-	-	-
Total expenses reported by function on statement of activities	\$ 1,577,915	\$ 151,877	\$ 445,973	\$ 166,223	\$ 1,339,270	\$ 38,315

Rights of Passage	Total Program Services	Supporting Services				Total	
		Management and General	Fund-Raising	Direct Cost of Special Events	Total Supporting Services	Year ended June 30 2004	2003
							<i>(Restated)</i>
\$ 261,683	\$ 2,399,572	\$ 273,944	\$ 133,421	\$ -	\$ 407,365	\$ 2,806,937	\$ 3,394,922
25,126	234,551	25,051	12,415	-	37,466	272,017	318,587
40,237	308,688	42,668	17,423	-	60,091	368,779	404,940
327,046	2,942,811	341,663	163,259	-	504,922	3,447,733	4,118,449
-	-	42,893	2,258	-	45,151	45,151	38,500
1,307	4,590	128	23	-	151	4,741	15
725	11,788	-	-	-	-	11,788	56,846
3,810	26,045	2,130	68,841	-	70,971	97,016	194,391
9,029	74,917	8,547	2,952	-	11,499	86,416	83,328
7,701	32,367	15,082	4,307	-	19,389	51,756	51,313
556	10,092	4,346	459,646	-	463,992	474,084	447,952
40,951	127,901	12,936	2,735	-	15,671	143,572	141,227
10,130	46,909	5,211	1,721	-	6,932	53,841	34,464
-	-	-	-	-	-	-	1,276
52,578	175,732	26,460	5,594	-	32,054	207,786	207,785
27,038	45,341	568	185	-	753	46,094	47,533
7,595	63,760	16,545	4,765	-	21,310	85,070	72,867
6,886	58,609	7,477	2,384	-	9,861	68,470	68,402
17,994	116,557	-	-	-	-	116,557	108,128
759	9,095	-	-	-	-	9,095	25,643
436	5,446	-	-	-	-	5,446	2,651
4,448	190,778	-	-	-	-	190,778	1,450,687
66	16,358	335	9	-	344	16,702	23,424
1,222	7,591	917	306	-	1,223	8,814	12,311
2,743	42,534	23,084	28,291	-	51,375	93,909	112,558
364	1,932	344	1,261	-	1,605	3,537	4,431
249	3,967	71	1,114	-	1,185	5,152	5,707
393	2,948	469	328	-	797	3,745	7,134
15,476	62,166	7,986	2,229	-	10,215	72,381	59,873
6,999	82,061	43	-	-	43	82,104	99,617
(1,718)	9,325	5,573	1,122	30,751	37,446	46,771	38,365
418	1,403	26,978	2,713	-	29,691	31,094	29,941
852	2,840	-	-	-	-	2,840	-
546,053	4,175,863	549,786	756,043	30,751	1,336,580	5,512,443	7,544,818
13,918	103,681	6,210	2,243	-	8,453	112,134	107,108
559,971	4,279,544	555,996	758,286	30,751	1,345,033	5,624,577	7,651,926
-	-	-	-	(30,751)	(30,751)	(30,751)	(17,770)
\$ 559,971	\$ 4,279,544	\$ 555,996	\$ 758,286	\$ -	\$ 1,314,282	\$ 5,593,826	\$ 7,634,156

See accompanying notes.

Covenant House New Orleans

Consolidated Statements of Cash Flows

	Year ended June 30	
	2004	2003
	<i>(Restated)</i>	
Operating activities		
Increase (decrease) in net assets	\$ 178,124	\$ (323,407)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Noncash donations, net	(87,660)	-
Contribution of investments	(2,446)	(4,533)
Contributions restricted for building construction and fixed asset acquisitions	(28,170)	(88,396)
Contributed land, building, and equipment	(11,767)	(3,000)
Unrealized gains on investments	(29,151)	(20,805)
Depreciation and amortization	112,134	107,108
Amortization of loan discount	2,519	-
Change in fair value of assets held for sale	14,000	-
Loss on sale of land, building, and assets	1,611	6,597
Changes in operating assets and liabilities:		
Contributions receivable	10,792	37,353
Grants receivable	541,918	(110,342)
Due to (from) parent	60,251	(77,257)
Prepaid expenses	42,553	8,646
Other assets	614	2,901
Other receivables	35,958	(22,577)
Accounts payable, accrued expenses, refundable advances, and other liabilities	(637,553)	208,368
Net cash provided by (used in) operating activities	203,727	(279,344)
Investing activities		
Business acquisition	(154,555)	-
Sale of investments	474,188	273,734
Purchase of investments	(384,561)	-
Purchases of land, building, and equipment	(248,521)	(104,946)
Proceeds from sale of land, building, and equipment	13,845	2,500
Net cash (used in) provided by investing activities	(299,604)	171,288
Financing activities		
Proceeds from contributions restricted for building construction and fixed asset acquisition	28,170	88,396
Proceeds from Community Development Block Grant	205,252	77,396
Proceeds from promissory note and line of credit	164,555	-
Payment of debt obligations	(11,667)	-
Net cash provided by financing activities	386,310	165,792
Net increase in cash and cash equivalents	290,433	57,736
Cash and cash equivalents at beginning of year	332,963	275,227
Cash and cash equivalents at end of year	\$ 623,396	\$ 332,963

See accompanying notes.

Covenant House New Orleans

Notes to Consolidated Financial Statements

June 30, 2004

1. Organization

Covenant House New Orleans (“CHNO”) is a not-for-profit organization, which was established and incorporated in 1984. Covenant House New Orleans is affiliated with similar organizations in other locations, all of which are affiliates of Covenant House (the “Parent”). The Parent is the sole member of Covenant House New Orleans and is itself a private, not-for-profit agency which, through its affiliates, offered shelter, food, clothing, counseling, medical attention, crisis intervention, and other services to over 78,000 runaway and homeless youth during the current fiscal year. In addition, the Parent offers a national toll-free crisis intervention hotline.

During fiscal 2004, Covenant House New Orleans acquired certain assets of a business known as Coffee and Company with the expressed purpose of training underserved and at-risk youth on how to operate a coffee shop and catering business. Participation in the program will enable youth to become involved in society, assume responsibility, and exercise better judgment, all of which will contribute to their rehabilitation. Covenant Café, LLC (“Covenant Café”), was created to operate the business and training program as a division of Covenant House New Orleans, its sole member.

These combined financial statements represent the financial statements of CHNO and Covenant Café.

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

Covenant House Alaska	Covenant House Pennsylvania/Under 21
Covenant House California	Covenant House Texas
Covenant House Florida	Covenant House Washington, D.C.
Covenant House Georgia	Covenant House Western Avenue
Covenant House Michigan	Covenant International Foundation
Covenant House Missouri	Testamentum
Covenant House New Jersey	Under 21
Covenant House Toronto	Casa Alianza Nicaragua
Covenant House Vancouver	Casa Alianza Internacional
Asociacion Casa Alianza (Guatemala)	Fundacion Casa Alianza Mexico, I.A.P.
Casa Alianza De Honduras	

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies

Fund Accounting and Net Asset Classification

To ensure compliance with restrictions placed on the resources available to Covenant House New Orleans, Covenant House New Orleans'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 consolidated financial statements, funds that have similar characteristics have been combined into three net asset categories: permanently restricted, temporarily restricted, and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit Covenant House New Orleans to use or expend all of the income derived from the donated assets for unrestricted purposes. CHNO has no permanently restricted net assets at June 30, 2004.
- 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 consolidated statements of financial position, Covenant House New Orleans's Board of Directors has designated a portion of the unrestricted net assets of Covenant House New Orleans for long-term investment purposes.

Functional Expense Allocation

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

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The joint costs of certain informational mailings of Covenant House New Orleans that contain an appeal for funds are allocated between the public education program and fund-raising. No joint costs were incurred during fiscal year 2004, while approximately \$34,000 was incurred for informational mailings in fiscal year 2003, \$29,000 was allocated to public education in fiscal year 2003.

Revenue Recognition

Covenant House New Orleans records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, Covenant House New Orleans records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services, and gifts of long-lived assets. Conditional contributions are recognized as contributions when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts. Nonmonetary contributions are valued at fair market value and recognized as those contributions are utilized.

Temporarily Restricted Contributions and Net Asset Reclassifications

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 released and reported in the accompanying consolidated 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 as unrestricted contributions.

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

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Land, Building, and Equipment

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

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired, and is amortized over a five-year period.

Contributed Services and Merchandise

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

Allowance for Doubtful Accounts

Covenant House New Orleans maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors or customers to make required payments. Such allowances are based upon several factors including, but not limited to, historical experience and the financial condition of the donor or customer.

Cash and Cash Equivalents

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

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments and Investment Income

Marketable equity securities and debt obligations are carried at quoted market value. Income earned from investments, including realized and unrealized gains and losses, is recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

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

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

Cash and cash equivalents: The carrying amounts reported in the accompanying consolidated 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.

Assets held for sale: Market values for real estate held for sale are based on listed sales prices. The assets held for sale primarily consist of donated artwork, which was recorded at the appraised values on the date of donation.

Summarized Financial Information for Fiscal 2003

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or functional expense category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with Covenant House New Orleans' consolidated financial statements for the year ended June 30, 2003, from which the summarized information was derived.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Prior Period Restatement

In fiscal 2003, Covenant House New Orleans was awarded a Community Development Block Grant ("CDBG") of \$330,000, passed through the City of New Orleans, from the U.S. Department of Housing and Urban Development. In fiscal 2003, approximately \$77,000 was received and used in accordance with the CDBG agreement. The agreement was structured as a loan to Covenant House New Orleans and will be forgiven over a 5-year period commencing in fiscal 2005. The amount received in fiscal 2003 of \$77,000 was recorded as contribution revenue. It should have been treated as a loan payable, and an adjustment of the amount has been made to the fiscal 2003 consolidated financial statements. As a result of this adjustment, fiscal 2003 revenues and change in unrestricted net assets decreased by approximately \$77,000.

The following accounts were affected as a result of the adjustment to fiscal 2003:

	As Previously Reported	Change	Restated Amounts
Contributions revenue	\$ 7,299,208	\$ (77,396)	\$ 7,221,812
Change in net assets	(246,011)	(77,396)	(323,407)
Community Development Block Grant	-	77,396	77,396
Net assets	1,883,576	(77,396)	1,806,180

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.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

3. Components of Program and Supporting Services (continued)

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

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

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

The *Community Service Center* provides comprehensive services to youths who have left Covenant House affiliates' crisis centers, and other youths in the community who need support to maintain themselves in stable living situations. Within this program, Covenant House New Orleans also provides counseling and intervention services through the City of New Orleans' Curfew and Assessment Center and work-related instruction and experience through the White Dove Landscape and Covenant Café training programs.

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

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

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

3. Components of Program and Supporting Services (continued)

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.

Direct Benefit to Donor Cost of Special Events are those costs incurred in connection with special events related to items benefiting attendees of special events, such as meals and entertainment.

4. Related Party Transactions and Interaffiliate Transfers

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fund-raising activities for its own programs and the programs of its affiliates for which a fee is charged. The amount of financial support provided, the amount of funds raised, and the amount of fund-raising expenses allocated to the affiliates are based on terms mutually agreed upon by the parties involved. In fiscal 2004 and 2003, the Parent allocated fund-raising expenses to its affiliates totaling approximately \$9.8 million and \$10.2 million, respectively, for fund-raising activities conducted by the Parent on their behalf. In fiscal 2004 and 2003, the Parent allocated fund-raising expenses to Covenant House New Orleans totaling approximately \$530,000 and \$520,000, respectively.

Contributions received by the Parent are generally not specifically restricted by donors to specific affiliates. Contributions received by the Parent and allocated to affiliates, based on the Parent's policy, approximated \$23.9 million and \$24.5 million in fiscal 2004 and 2003, respectively.

The Parent provided certain of its affiliates with support contributions, used principally for programs of the affiliates, totaling approximately \$18.8 million and \$22.2 million in fiscal year 2004 and 2003, respectively. Of these amounts, Covenant House New

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

4. Related Party Transactions and Interaffiliate Transfers (continued)

Orleans received approximately \$600,000 and \$833,000 in fiscal 2004 and 2003, respectively.

The Parent provides certain of its affiliates with insurance, computer access services, and data software and hardware maintenance. The Parent allocated expenses of approximately \$80,000 in 2004 and \$115,000 in 2003 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 2004 and 2003.

5. Contributions Receivable

Contributions receivable consist of promises to give related to special events, direct mail campaigns, and beneficial interests in estates. Contributions receivable have been recorded at present value, net of estimated uncollectible amounts. Those receivables that are due in more than one year have been discounted to their present value using a discount rate of 5.25%. The receivables are due as follows:

	June 30	
	2004	2003
One year	\$ 10,000	\$ 30,267
One to three years	20,000	-
Thereafter	-	10,000
	<u>30,000</u>	<u>40,267</u>
Less discount to present value	(525)	-
Present value of contributions receivable	<u>\$ 29,475</u>	<u>\$ 40,267</u>

Additionally, Covenant House New Orleans has been named the beneficiary of a \$10,000 life insurance policy. This amount has been classified as a long-term contribution receivable due to the uncertainty associated with the timing of the receipt of these funds.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

6. Investments

Investments at fair value consisted of the following:

	June 30	
	2004	2003
Cash and cash equivalents	\$ 25,431	\$ 117,364
Common stocks	260,346	240,271
Corporate debt securities	41,819	27,991
	<u>\$ 327,596</u>	<u>\$ 385,626</u>

7. Assets Held for Sale

Assets held for sale at fair value consisted of the following:

	June 30	
	2004	2003
Real estate held for sale	\$ 25,000	\$ 39,000
Other assets held for sale	78,655	3,000
	<u>\$ 103,655</u>	<u>\$ 42,000</u>

8. Land, Building, and Equipment

Land, building, and equipment, net, consisted of the following:

	June 30	
	2004	2003
Land	\$ 100,500	\$ 100,500
Buildings and improvements	917,732	917,732
Equipment	1,385,366	1,369,373
Leasehold improvements	368,538	130,116
	<u>2,772,136</u>	<u>2,517,721</u>
Less accumulated depreciation and amortization	1,608,600	1,529,188
	<u>\$ 1,163,536</u>	<u>\$ 988,533</u>

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

8. Land, Building, and Equipment (continued)

Covenant House New Orleans completed the renovation of its residential facilities (the "Project"), which are leased from the Parent and located at 611 North Rampart, during March 2004. The total cost of the Project was approximately \$353,000, which was funded by the receipt of approximately \$283,000 from a \$330,000 Community Development Block Grant ("CDBG")/loan, two Louisiana Stadium Exposition District ("LSED") grants, capital appeal contributions from private donors, and the Parent.

9. Covenant Cafe Purchase

During fiscal 2004, Covenant House New Orleans acquired certain assets of a business known as Coffee and Company, located at 1515 Poydras Street, New Orleans, Louisiana. Covenant Café, LLC, was created to operate the business and training program as a division of Covenant House New Orleans, its sole member.

The acquisition of Covenant Café was made with a \$175,000 note payable to the seller. The acquisition has been accounted for using the purchase method. Accordingly, the purchase price has been allocated to the tangible assets based on their estimated fair values at the date of acquisition. In connection with the acquisition, CHNO recorded goodwill, as shown below, representing the purchase price in excess of net asset values and related acquisition costs. Goodwill is to be amortized over a 5-year period. The purchase price consisted of the \$175,000 note payable less the discount on the note payable of \$20,445 (net debt of \$154,555). The results of operation of Covenant Café are included in the consolidated statement of activities for the period from the date of purchase through to June 30, 2004.

As of the acquisition date, the following values were assigned to the assets in the Covenant Café purchase:

	<u>Covenant Cafe</u>
Equipment	\$ 19,000
Goodwill	135,555
Total	<u>\$ 154,555</u>

Amortization expense of \$11,300 was recorded in fiscal 2004.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

10. Debt Obligations

CHNO had the following debt obligations at June 30, 2004 and 2003:

	June 30	
	2004	2003
Line of credit	\$ 10,000	\$ —
Promissory note payable, net of discount	145,407	—
Community Development Block Grant	282,648	77,396
	<u>\$ 438,055</u>	<u>\$ 77,396</u>

Covenant House New Orleans has a line of credit agreement with a third-party lender to borrow up to an aggregate amount of \$100,000 secured by the assets of Covenant Café. Interest is payable at the third-party lender prime rate, plus 1%. The line of credit expires February 2005. The initial amount borrowed and balance outstanding at June 30, 2004 totaled \$10,000 and the interest rate was 5%.

CHNO purchased Coffee and Company for a purchase price of \$175,000 represented by a promissory note payable to the seller in 59 equal monthly installments of approximately \$2,900, bearing 0% interest per annum. The imputed interest on the loan at the time of issuance was estimated at \$20,445, based on a 5% interest rate. In return, Covenant House New Orleans received full ownership of all items transferred by the seller, including all rights to use of names "Coffee & Company" and "Coffee and Company," goodwill, all customer lists of the business, and all other assets used in its operation, including licenses, permits, furniture, fixtures, and equipment.

In fiscal 2003, Covenant House New Orleans was awarded a Community Development Block Grant ("CDBG") of \$330,000 passed through the City of New Orleans, from the U. S. Department of Housing and Urban Development, of which approximately \$283,000 was received and used for the renovations of the Crisis Center and Rights of Passage buildings. Pursuant to the facility-use restriction clause and other terms of the CDBG agreement, the grant is structured as a loan to Covenant House New Orleans and will be forgiven over a 5-year period commencing in fiscal 2005.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

10. Debt Obligations (continued)

Debt service requirements at June 30, 2004 were as follows:

2005		\$	101,528
2006			91,528
2007			91,528
2008			91,528
2009			79,869
			455,981
Less unamortized discount on notes payable			(17,926)
			\$ 438,055

11. Temporarily Restricted Net Assets

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

	June 30	
	2004	2003
Various donor-imposed purpose restrictions	\$ 58,206	\$ 42,945
Time restricted for future periods	9,475	-
	\$ 67,681	\$ 42,945

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

	Year ended June 30	
	2004	2003
Various donor-imposed purpose restrictions	\$ 42,945	\$ 59,399
Elapsed time restrictions	-	17,160
	\$ 42,945	\$ 76,559

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

12. Pension Plan

Covenant House New Orleans participates in a defined benefit pension plan (the "Plan") administered by the Parent, covering substantially all employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and average salary, as defined under the Plan. The Parent's policy is to contribute the amount recommended by its actuary. The assets of the Plan, which are held by Mutual of America Life Insurance Company, consist primarily of mutual funds that are invested in equities and debt obligation instruments. Total pension costs of \$131,025 and \$147,473 were allocated to Covenant House New Orleans from the Parent in fiscal 2004 and 2003, respectively. Separate participant data for Covenant House New Orleans is not available.

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

13. Tax-Exempt Status

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

14. Commitments and Contingencies

Covenant House New Orleans assumed the seller's lease as a condition of its purchase of the coffee shop and catering business. The lease and addendum, dated March 15, 1995, and first amendment, dated June 28, 2002, is for a term ending December 31, 2007, with renewal options. Aggregate future minimum lease payments under this operating lease that has remaining terms in excess of one year as of June 30, 2004, are as follows:

Year ending June 30:	
2004	\$ 18,150
2005	48,432
2006	48,432
2007	24,216
	<hr/>
	\$ 139,230

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies (continued)

Currently, Covenant House New Orleans is contingently liable under a lawsuit, which is covered in whole or in part by insurance. In management's opinion, the lawsuit should not have a material adverse effect on the financial position or changes in the net assets of Covenant House New Orleans.

15. Concentration of Cash and Cash Equivalents

At June 30, 2004 and 2003, approximately \$222,000 and \$139,000, respectively, of total cash and cash equivalents were held by one financial institution above the Federal Deposit Insurance Corporation insured limit.

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

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

The Board of Directors
Covenant House New Orleans

We have audited the consolidated financial statements of Covenant House New Orleans as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 consolidated 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the consolidated 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covenant House New Orleans' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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*.

This report is intended solely for the information and use of the board of directors, management, Louisiana Legislative Auditor and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Ernst + Young LLP

August 27, 2004

Report on Compliance and on Internal Control Over
Compliance in Accordance With *OMB Circular A-133*,
and on the Schedule of Expenditures of Federal Awards

The Board of Directors
Covenant House New Orleans

Compliance

We have audited the compliance of Covenant House New Orleans with the types of compliance requirements described in the U.S. Office of Management and Budget (“OMB”) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Covenant House New Orleans’ major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of Covenant House New Orleans’ management. Our responsibility is to express an opinion on Covenant House New Orleans’ compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 Covenant House New Orleans’ 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 Covenant House New Orleans’ compliance with those requirements.

In our opinion, Covenant House New Orleans complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Covenant House New Orleans is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Covenant House New Orleans' 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 our opinion on compliance and to test and report on the 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud 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 operations that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of Covenant House New Orleans as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2004, is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors, management, Louisiana Legislative Auditor and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Ernst & Young LLP

September 3, 2004

Covenant House New Orleans
Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantor/Program Title/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor's Number	2004 Expenditures	Period Covered From To
U.S. Department of Housing and Urban Development: Public Facilities Program: Passed through City of New Orleans	14.218	CS#50-251(02)	\$ 205,252 <u>205,252</u>	01/01/03 06/30/04
Emergency Shelter Grants Program: Passed through City of New Orleans	14.231	ESG-018F	24,774	01/01/03 12/31/03
Passed through City of New Orleans	14.231	ESG-019F	40,878 <u>65,652</u>	01/01/04 12/31/04
Supportive Housing Program: Received directly		N/A	46,994	11/30/01 11/29/04
Received directly		N/A	48,846	05/01/01 04/30/04
Received directly		N/A	10,849	05/01/04 04/30/05
Received directly		N/A	100,277	03/01/01 02/28/04
Received directly		N/A	51,979	03/01/04 03/31/05
Passed through UNITY for the Homeless, Inc.	14.235	LA48B10-3011	33,564	04/01/03 03/31/04
Passed through UNITY for the Homeless, Inc.	14.235	LA48B30-3022	4,068	04/01/04 03/31/05
Passed through UNITY for the Homeless, Inc.	14.235	LA48B90-3002	23,526	04/01/00 03/31/04
Passed through UNITY for the Homeless, Inc.	14.235	LA48B30-3005	8,478	04/01/04 03/31/05
Passed through UNITY for the Homeless, Inc.	14.235	LA48B00-3004	34,660	12/01/02 11/30/03
Passed through UNITY for the Homeless, Inc.	14.235	LA48B20-3005	34,416	12/01/03 11/30/04
Passed through UNITY for the Homeless, Inc.	14.235	LA48B00-3006	59,539 <u>457,196</u> <u>728,100</u>	07/01/01 06/30/04
Total U.S. Department of Housing and Urban Development				
U.S. Department of Health and Human Services: Street Outreach Program for Runaway & Homeless Youths: Passed through Tulane University Health Services Center/LA Dept. of Social Services	93.557	06YO0528/02	2,566	09/30/02 09/29/03
Passed through Tulane University Health Services Center/LA Dept. of Social Services	93.557	06YO0528/03	9,241 <u>11,807</u>	09/30/03 09/29/04

Covenant House New Orleans

Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2004

Federal Grantor/Program Title/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor's Number	2004 Expenditures	Period Covered From	Period Covered To
Temporary Assistance for Needy Families (TANF): Fidwork: Passed through Office of Family Support/LA Department of Social Services Child Care and Development Block Grant: Passed through Office of Family Support/LA Department of Social Services Total U.S. Department of Health and Human Services	93.558 93.575	586713 20061627	\$ 74,610 <u>10,869</u> <u>85,479</u> <u>97,286</u>	09/01/02 07/01/03	06/30/05 06/30/04
U.S. Department of Agriculture: Nutrition Cluster: School Breakfast Program Passed through Louisiana Department of Education Total U.S. Department of Agriculture	10.553	7547	<u>40,156</u> <u>40,156</u>	07/01/03	06/30/04
Department of Homeland Security: Federal Emergency Food and Shelter National Board: Program Passed through United Way Total Department of Homeland Security	97.024	22.3658.00	<u>5,240</u> <u>5,240</u>	01/01/04	12/31/04
U.S. Department of Justice: Bureau of Justice Assistance: Local Law Enforcement Block Grant, Curfew & Assessment Program: Passed through City of New Orleans Passed through City of New Orleans Total U.S. Department of Justice	16.592 16.592	02CJCO-007 03CJCO-013	<u>82,933</u> <u>175,785</u> <u>258,718</u>	10/01/02 10/01/03	09/30/03 09/30/04

Covenant House New Orleans

Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2004

Federal Grantor/Program Title/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor's Number	2004 Expenditures	Period Covered From To
U.S. Department of Labor: Youth Opportunities Program (Under the Workforce Investment Act): Passed through City of New Orleans: New Orleans Workforce Investment Board	17.259	03-MYR-053	\$ 254,149	07/01/03 08/31/03
Passed through Tulane University: City of N.O. New Orleans Workforce Investment Board	17.259	03-MYR-054	11,082	09/15/03 12/31/03
Passed through Tulane University: City of N.O. New Orleans Workforce Investment Board	17.259	03-MYR-054	1,530	03/01/04 06/30/04
Total U.S. Department of Labor			<u>266,761</u>	
Total Federal Awards Expenditures			<u>\$ 1,396,261</u>	

See accompanying notes to Schedule of Expenditures of Federal Awards.

Covenant House New Orleans

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Covenant House New Orleans for the year ended June 30, 2004, and is prepared on the accrual basis of accounting as prescribed by accounting principles generally accepted in the United States. The information in this schedule is presented in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Community Development Block Grant

In fiscal 2003, Covenant House New Orleans was awarded a Community Development Block Grant ("CDBG") of \$330,000 passed through the City of New Orleans, from the U. S. Department of Housing and Urban Development, of which approximately \$283,000 was received and used for the renovations of the Crisis Center and Rights of Passage buildings. Pursuant to the facility-use restriction clause and other terms of the CDBG agreement, the grant is structured as a loan to Covenant House New Orleans and will be forgiven over a five-year period commencing in fiscal 2005. If Covenant House New Orleans does not use the buildings per the terms of the CDBG agreement, the unamortized amount will become due and payable to the City of New Orleans.

Covenant House New Orleans

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I – Summary of Auditor’s Results

Financial Statement Section

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

Federal Awards Section

Dollar threshold used to determine Type A programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes
Type of auditor’s report on compliance for major programs:	Unqualified
Internal control over major programs:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	No
Any audit findings disclosed that are required to be reported in accordance with <i>Circular A-133</i> (section 510(a))?	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	U.S. Department of Housing and Urban Development—Public Facilities Program
14.231	U.S. Department of Housing and Urban Development—Emergency Shelter Grants Program
14.235	U.S. Department of Housing and Urban Development—Supportive Housing Program
16.592	U.S. Department of Justice—Local Law Enforcement Block Grant, Curfew & Assessment Program

Covenant House New Orleans

Schedule of Findings and Questioned Costs (continued)

Part II – Schedule of Financial Statement Findings Section

None.

Part III – Federal Award Findings and Questioned Costs Section

None.

