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STATE DEPARTMENT
GENERAL INVESTIGATIVE
DIVISION
WASHINGTON, D.C.

GRACE HOUSE OF NEW ORLEANS, INC.

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT**

JUNE 30, 1966

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 DEC 3 1966

GRACE HOUSE OF NEW ORLEANS, INC.

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John C. Todd, Jr., C.P.A. PC

A PROFESSIONAL ACCOUNTING CORPORATION
4001 LAKE STREET SUITE 100, LAFAYETTE, LOUISIANA 70503
MEMBER OF THE AICPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gray House of New Orleans, Inc.

I have audited the accompanying statements of financial position of Gray House of New Orleans, Inc. (a nonprofit corporation) as of June 30, 1998, and the related statements of activities, and cash flows for the period January 1, 1997 through June 30, 1998. These financial statements are the responsibility of Gray House of New Orleans, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. Those standards require that I 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 the significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Gray House of New Orleans, Inc. as of June 30, 1998, and the changes in its net assets and its cash flows for the period January 1, 1997 through June 30, 1998 in conformity with generally accepted accounting principles.

My audit was made for the purpose of forming an opinion on the basic financial statements of Gray House of New Orleans, Inc. taken as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is required by the U. S. Office of Management and Budget Circular A-133, "Audit of State, Local Governments, and Non-Profit Organizations." Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued a report dated November 24, 1998, on my consideration of Gray House of New Orleans, Inc.'s internal control over financial reporting, and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Mitcheville, Louisiana
November 24, 1998



GRACE HOUSE OF NEW ORLEANS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 1998

ASSETS

Cash		\$ 3,088
Grants receivable (Note A7 and B)		34,388
Prepaid expenses and deposits		5,993
Building, improvements, land and equipment - at cost (Note A7)		
Building	\$ 309,442	
Building improvements	368,611	
Equipment	48,889	
Furniture and fixtures	6,337	
	733,280	
Less accumulated depreciation	(60,454)	
	672,826	
Land	125,000	797,826
Total assets		\$ 837,520

LIABILITIES AND NET ASSETS

Notes payable:		
Mortgage (Note C)	\$ 324,230	
Banks (Note C)	87,411	411,641
Accounts payable and accrued liabilities		6,367
Total liabilities		418,008
Net assets - Unrestricted		409,582
Total net assets		409,582
Total liabilities and net assets		\$ 837,520

The accompanying notes are an integral part of this financial statement.

GRACE HOUSE OF NEW ORLEANS, INC.

STATEMENT OF ACTIVITIES

For the period January 1, 1997 through June 30, 1998

			Total Microgrants Only	
	Unrestricted	Temporarily Restricted	For the period January 1, 1997 through June 30, 1998	For the year ended December 31, 1998
PLUG (C) SUPPORT AND REVENUE:				
Public support				
Contributions	\$ 31,600	\$ -	\$ 31,600	\$ 113,963
United Way - allocations	-	77,144	77,144	27,890
United Way - designations	7,137	-	7,137	4,800
CTC designations	3,648	-	3,648	856
Fundations	26,798	-	26,798	15,345
Total public support	<u>65,983</u>	<u>77,144</u>	<u>138,268</u>	<u>168,771</u>
REVENUE:				
Program service fees	38,568	-	38,568	13,763
Fees and grants from governmental agencies	-	496,174	496,174	294,561
Other revenues	53,649	-	53,649	846
Total revenue	<u>92,217</u>	<u>496,174</u>	<u>588,391</u>	<u>409,170</u>
Net assets released from operations	523,195	(523,295)	-	-
Total public support and revenue	<u>659,024</u>	<u>472,879</u>	<u>659,024</u>	<u>479,671</u>
EXPENSES:				
Program services	593,128	3,800	596,928	397,233
Support services				
Management and general	176,824	-	176,824	176,530
Total expenses	<u>770,152</u>	<u>3,800</u>	<u>773,952</u>	<u>423,733</u>
Increase (decrease) in net assets	(10,228)	(1,980)	(14,528)	56,896
Net assets, beginning of period	482,730	3,800	486,530	417,034
Net assets, end of period	<u>\$ 492,952</u>	<u>\$ 1,820</u>	<u>\$ 494,952</u>	<u>\$ 473,930</u>

The accompanying notes are an integral part of this financial statement.

GRACE HOUSE OF NEW ORLEANS, INC.

STATEMENT OF CASH FLOWS

For the period January 1, 1987 through June 30, 1988

Increase (Decrease) in cash and cash equivalents

Cash flows from operating activities:		
Decrease in net assets		\$ (14,508)

Adjustments to reconcile decrease in net assets

to net cash used in operating activities:

Depreciation	\$ 32,955	
--------------	-----------	--

Changes in assets and liabilities:

Increase in grants receivable	< 12,959	
-------------------------------	----------	--

Decrease in prepaid expenses and deposits	< 841	
---	-------	--

Decrease in accounts payable and accrued liabilities	< 28,850	<u>< 991</u>
--	----------	-----------------

Net cash used in operating activities		<u>< 50,444</u>
---------------------------------------	--	--------------------

Cash flows from financing activities:

Proceeds from note - mortgage	84,590	
-------------------------------	--------	--

Proceeds from notes - bank	305,800	
----------------------------	---------	--

Principal payments on note payable - mortgage	< 7,500	
---	---------	--

Principal payments on note payable - bank	< 181,500	
---	-----------	--

Principal payments on notes payable - other	< 958	
---	-------	--

Net cash provided by financing activities		<u>118,482</u>
---	--	----------------

Cash flows from investing activities:

Purchase of land and building	< 11,882	
-------------------------------	----------	--

Capital improvements to building	< 65,383	
----------------------------------	----------	--

Purchase of equipment	< 3,113	
-----------------------	---------	--

Purchase of furniture and fixtures	< 8,112	
------------------------------------	---------	--

Net cash used in investing activities		<u>< 88,490</u>
---------------------------------------	--	--------------------

Net decrease in cash and cash equivalents

< 5,246

Unaudited cash equivalents, beginning of period

<u>8,130</u>

Cash and cash equivalents, end of period

<u>\$ 3,084</u>

This accompanying note is an integral part of this financial statement.

GRACE HOUSE OF NEW ORLEANS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the period January 1, 1991 through June 30, 1998

	Grace House of New Orleans, Inc. Program	Support Services Management and Council	Totals	
			Miscellaneous Fund	
			For the period January 1, 1991 through June 30, 1998	For the year year ended December 31, 1998
Comptroller expense	\$ 166,529	\$ 307,616	\$ 450,885	\$ 288,858
Occupancy	49,044	2,752	47,065	41,658
Fuel	4,889	504	5,588	1,855
Specific insurance	4,587	-	4,587	1,344
Board provided self support	-	7,825	7,825	9,599
Other direct program expense	1,500,000	68,888	1,572,114	1,111,273
Total expense before depreciation	509,049	384,685	700,617	471,887
Depreciation	21,857	35,882	35,882	6,282
Total expense	\$ 530,906	\$ 420,567	\$ 736,500	\$ 478,169

The accompanying notes are an integral part of this financial statement.

CRACK HOUSE OF NEW ORLEANS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the corporation's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization

Crack House of New Orleans, Inc. is a non-profit corporation providing long-term residential treatment for alcoholic and chemically dependent women.

2. Presentation of Financial Statements

The corporation's financial statements are prepared in accordance with requirements established by the Financial Accounting Standards Board (FASB) as set forth in the Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-For-Profit Organizations". Accordingly, the net assets of the corporation present the following classes: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. There are no permanently restricted net assets.

Net assets of the restricted class are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class.

3. Revenue Recognition

For financial reporting, the corporation recognizes all contributed support as income in the period received. Contributed support is reported as unrestricted or restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified as unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

4. Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred, major renewals and betterments are capitalized when the acquisition cost exceeds \$1,000. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. The depreciation expense for the period January 1, 1997 through June 30, 1998 totaled \$21,893.

GRACE HOUSE OF NEW ORLEANS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. **Receivables**

The corporation considers accounts receivable to be fully collectible since the balance consists principally of payments due under governmental contracts. If amounts due become uncollectible, they will be charged to operations when that determination is made.

4. **Cash Equivalents**

For purpose of the statement of cash flows, the corporation considers all demand deposits and investments with original maturities of three months or less to be cash equivalents.

5. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

6. **Fair Value of Financial Instruments**

Generally accepted accounting principles require disclosure of fair value information about financial instruments for which it is practicable to estimate fair value, whether or not recognized in the statement of financial position. Cash and cash equivalents carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of these instruments.

7. **Total Columns of Combined Statements - Services**

Total columns are captioned "Management Only" to indicate that they are presented only to assist with financial analysis. Data in these columns do not present financial position, or changes in net assets in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidated

GRACE HOUSE OF NEW ORLEANS, INC.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

June 30, 1998

NOTE B - GRANTS RECEIVABLE

Grants receivable at June 30, 1998 consist of the following:

Duty for the Homeless	\$ 15,600
State of Louisiana - Department of Health and Hospitals - Office of Alcohol and Drug Abuse	13,275
City of New Orleans - Office of Health Policy and Aids Funding	1,900
City of New Orleans - Division of Planning and Neighborhood Development	3,433
	\$ 34,208

NOTE C - NOTES PAYABLE

Mortgage

1. Mortgage note payable in monthly installments of \$2,999 (principal and interest, interest at the rate of 8.25% with balloon payment in June, 2004 in the amount of \$271,196. Note collateralized by building, land and improvements located at 1401 Delcambre Street in New Orleans, Louisiana.

The aggregate maturities of the note at June 30, 1998 are as follows:

Year Ended	Amount
June 30, 1999	\$ 7,301
June 30, 2000	7,863
June 30, 2001	8,679
June 30, 2002	9,569
June 30, 2003	10,583
Subsequent to year ended June 30, 1999	180,890
	\$ 219,285

Banks

Bank line of credit, interest at the rate of 8.25%	\$ 80,471
Bank line of credit, interest at the rate of 8.00%	13,940
	\$ 94,411

Interest expense for the period January 1, 1997 through June 30, 1998 amounted to \$55,971. Of this amount \$26,114 represented interest paid on the mortgage note on building, land and improvements occupied by Grace House of New Orleans, Inc.'s clients.

GRACE HOUSE OF NEW ORLEANS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 1998

NOTE B - SUMMARY OF FUNDING

Grace House of New Orleans, Inc. funding for grants and contracts consists of the following:

Grants	Period	Revenue Encumbered
Emergency Food Shelter Program	08/01/96-09/30/97	\$ 5,117
	08/01/97-09/30/98	4,764
State Long Term Residential Treatment Program	07/01/96-06/30/97	59,790
	07/01/97-06/30/98	107,815
Health Care for the Homeless	11/01/96-08/1/97	8,087
Integrated Homeless Project	07/01/96-06/30/97	52,138
Ryan White	07/01/96-05/31/98	7,832
Target Clinic Program	07/01/96-06/30/97	20,880
	07/01/97-12/31/98	59,139
Housing Opportunities for Persons with Aids	07/01/96-02/28/97	4,196
	07/01/97-09/30/97	19,893
Emergency Shelter Grant Program	07/01/97-12/31/97	36,697
	07/01/98-06/30/98	17,480
Housing Services for the Homeless		
Supportive Housing - Youth	04/1/97-02/1/98	49,698
Behavior Abuse	04/1/98-02/1/99	11,963
Colostrin Project Research	06/01/98-07/31/99	6,774
		<u>\$ 486,113</u>

NOTE E - INCOME TAXES

The corporation is exempt from corporate income taxes under Section 501(c)(7) of the Internal Revenue Code.

NOTE F - CASH FLOW INFORMATION

For the period January 1, 1997 through June 30, 1998, the corporation paid interest to the amount of \$53,907.

GRACE HOUSE OF NEW ORLEANS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 1998

NOTE G - BOARD OF DIRECTORS' COMPENSATION

The Board of Directors is a voluntary board, therefore, no compensation has been paid to any member.

NOTE H - ECONOMIC DEPENDENCY

The Corporation receives a majority of its revenues from funds provided through grants administered by the State of Louisiana and the City of New Orleans. The grant amounts are appropriated each year by the federal government. If significant budget cuts are effected at the federal level, the amount of the funds the corporation receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the corporation will receive in the next fiscal year.

The Corporation is supported primarily through government grants. Approximately 70% of the corporation's support for the period January 1, 1997 through June 30, 1998 came from these grants.

SUPPLEMENTAL INFORMATION

ORACLE HOUSE OF NEW ORLEANS, INC.

SCHEDULE OF REVENUE AND EXPENSES BY PROGRAM

For the period January 1, 1997 through June 30, 1998

	Agency Total	Supporting Services Management and Control	Program Service
REVENUE:			
Board generated self support	\$ 82,115	\$ 82,115	\$ -
Client generated self support	30,569	-	30,569
Government grants/treatments	886,116	-	486,191
Other revenue	21,080	21,080	-
Total self generated revenue	919,880	104,195	516,760
United Way designations	2,157	-	2,157
CPC Designations	1,648	-	3,648
Total revenue	924,685	104,195	522,525
United Way allocation	27,144	-	27,144
Grand total revenue	951,829	104,195	549,669
EXPENSES:			
Compensation expenses	450,943	397,658	388,128
Occupancy expenses	47,846	1,572	44,693
Travel and transportation expenses	2,343	504	4,388
Specific assistance	4,687	-	4,687
Board generated self support expenses	7,872	7,872	-
Other direct program/support expenses	197,214	66,588	130,286
Total expenses	709,815	474,192	568,182
Increase (decrease) in net assets	(241,986)	(369,997)	(18,414)
Depreciation	\$ 20,912	\$ 11,862	\$ 11,873

GRACE HOUSE OF NEW ORLEANS, INC.

STATEMENT OF EXPENDITURES - EMERGENCY SHELTER GRANT PROGRAM

For the period January 1, 1997 through June 30, 1998

	<u>City of New Orleans</u>	
	<u>Grant 156 - 01</u>	<u>Grant 156 - 02</u>
	<u>January 1, 1997</u>	<u>January 1, 1998</u>
	<u>Through</u>	<u>through</u>
	<u>December 31, 1997</u>	<u>June 30, 1998</u>
Personnel services	\$ 36,687	\$ 77,400

GRACE HOUSE OF NEW ORLEANS, INC.

STATEMENT OF EXPENDITURES - HUD EMERGENCY RELIEF GRANT

For the period January 1, 1997 through June 30, 1998

City of New Orleans

HUD Emergency Relief

Grant

March 1, 1998

through

June 30, 1998

Personal services

\$ 1,000

GRACE HOUSE OF NEW ORLEANS, INC.

STATEMENT OF EXPENDITURES -
HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS

For the period January 1, 1987 through June 30, 1988

	<u>City of New Orleans</u>	
	<u>HOPWA PROJECT</u>	<u>HOPWA PROJECT</u>
	<u>1987</u>	<u>1988</u>
Professional services	\$ 15,880	\$ 4,000
Contractual services	11,366	7,000
Supplies and materials	-	500
Equipment and property	-----	1,884
	<u>\$ 27,246</u>	<u>\$ 13,384</u>

GRAND HOTEL OF NEW ORLEANS, INC.

**STATEMENT OF EXPENDITURES -
RELEVANCE FOR THE HOMELESS PROGRAM**

For the period January 1, 1997 through June 30, 1998

City of New Orleans

November 1, 1996
through
October 31, 1997

Contract services

1,437

GRACE HOUSE OF NEW ORLEANS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the period January 1, 1997 through June 30, 1998

Program Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Funds passed through Unity for the Homeless, Inc.:		
Innovative Homeless Project	14.218	\$ 32,718
Supportive Housing Program	14.218	64,833
Funds passed through the City of New Orleans:		
Emergency Shelter Grant	14.211	50,097
Health Care for the Homeless	14.211	4,187
Housing Opportunity of Persons with Aids Programs	14.261	21,081
Total U.S. Department of Housing and Urban Development		<u>\$ 181,517</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Funds passed through the City of New Orleans:		
Department of Health - Ryan White		
Comprehensive HIV/AIDS Health Planning		
Council - HIV Emergency Relief Grant Program	93.118	7,611
Funds passed through the State of Louisiana:		
Department of Health and Hospitals:		
Office of Alcohol and Drug Abuse:		
Target Cities Program	93.096	87,980
Long Term Residential Treatment Program	93.849	200,011
Total U.S. Department of Health and Human Services		<u>295,702</u>
Federal Emergency Management Agency:		
Funds passed through the United Way of Greater New Orleans:		
Emergency Fund and Shelter Program	93.021	9,880
Total Federal awards		<u>\$ 486,151</u>

GRACE HOUSE OF NEW ORLEANS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the period January 1, 1997 through June 30, 1998

A. Explanation of Financial Statements

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Grant revenues are recorded, for financial reporting purposes, when Grace House of New Orleans, Inc. has met the cost reimbursement or funding obligation for the respective grant.

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PREPARED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Grace House of New Orleans, Inc.

I have audited the financial statements of Grace House of New Orleans, Inc. as of June 30, 1998 and for the period January 1, 1997 through June 30, 1998, and have issued my report thereon dated November 24, 1998. I conducted my 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 Grace House of New Orleans, Inc.'s financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, applicable to 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my audit, I considered Grace House of New Orleans, Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

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

New Orleans, Louisiana
November 24, 1998



John C. Todd, Jr., CPA, PC
A PROFESSIONAL ACCOUNTING CORPORATION
5071 LAKE STRECHY BELT RICH, LOUISIANA 70001
Tel: 504-835-9100 Fax: 504-835-9101

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-110**

Board of Directors
Grace House of New Orleans, Inc.

Compliance

I have audited the compliance of Grace House of New Orleans, Inc. with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-110 Compliance Supplement" that are applicable to each of its major federal programs for the period January 1, 1997 through June 30, 1998. Grace House of New Orleans, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Grace House of New Orleans, Inc.'s management. My responsibility is to express an opinion on Grace House of New Orleans, Inc.'s compliance based on my audit.

I conducted my 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-110, "Audit of the States, Local Governments, Non-Profit Organizations." These standards and OMB Circular A-110 require that I 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 Grace House of New Orleans, Inc.'s compliance with these requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Grace House of New Orleans, Inc.'s compliance with these requirements.

In my opinion, Grace House of New Orleans, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the period January 1, 1997 through June 30, 1998.

Internal Control Over Compliance

The management of Grace House of New Orleans, Inc. 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 my audit, I considered Grace House of New Orleans, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-110.

My consideration of the internal control over compliance would not necessarily describe 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, contract and grant 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

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



New Orleans, Louisiana
November 24, 1998

GRACE HOUSE OF NEW ORLEANS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the period January 1, 1997 through June 30, 1998

A. SUMMARY OF THE AUDITOR'S REPORT

1. An unqualified opinion was issued on the financial statements of the Grace House of New Orleans, Inc.
2. The statement that operable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses is not applicable.
3. No instances of noncompliance that were material to the financial statements of Grace House of New Orleans, Inc. were disclosed during the audit.
4. The statement that operable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses is not applicable.
5. The auditor's report on compliance for the major programs for Grace House of New Orleans, Inc. expresses an unqualified opinion.
6. The audit disclosed no findings which are required to be reported under Section 501(c)(3) of Chapter A-177.
7. Major programs for the period January 1, 1997 through June 30, 1998 were:

U. S. Department of Health and Human Services
Tampa-Cuba Program (CFDA #95.176)
Long-Term Residential Transition Program (CFDA #93.550)
8. The dollar threshold used to distinguish between Type A and Type B programs was \$500,000. Since both were for Type A programs, the Type B programs were designated as Type A programs to satisfy the 20% testing rule.
9. The auditor did not qualify as a low-risk auditor.

B. SCHEDULE OF FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no findings related to the financial statements for the period January 1, 1997 through June 30, 1998.

C. SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no items identified to the audit of our testing during the current year required to be reported.

**GRACE HOUSE OF NEW ORLEANS, INC.
STATUS OF PRIOR YEAR AUDIT FINDINGS**

June 30, 1998

There were no audit findings contained in the audit report for the year ended December 31, 1998.