

CONSOLIDATED FINANCIAL STATEMENTS

Covenant House New Orleans

Year Ended June 30, 2005, With Summarized Financial Information
for the Year Ended June 30, 2004



Covenant House New Orleans
Consolidated Financial Statements

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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, 2005, 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 financial statements based on our audit. The prior year summarized comparative information has been derived from the Covenant House New Orleans 2004 financial statements and, in our report dated August 27, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in 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. We were not engaged to perform an audit of Covenant House New Orleans' internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Covenant House New Orleans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Covenant House New Orleans at June 30, 2005, and the consolidated 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.

Ernst & Young LLP

November 18, 2005

Covenant House New Orleans

Consolidated Statements of Financial Position

	June 30	
	2005	2004
Assets		
Cash and cash equivalents	\$ 156,039	\$ 623,396
Assets held for sale	102,205	103,655
Short-term contributions receivable, net	125,583	10,000
Due from Parent	110,262	–
Grants receivable	153,745	309,450
Other receivables, net of allowance for doubtful accounts of \$8,009 in 2005 and \$2,628 in 2004	51,779	42,201
Inventory	3,482	3,584
Prepaid expenses	198,122	209,542
Land, building, and equipment, net	491,098	1,163,536
Long-term investments	943,262	327,596
Long-term contributions receivable, net	90,064	19,475
Long-term notes receivable	129,800	–
Goodwill, net	97,144	124,255
Other assets	28,439	8,100
Total assets	\$ 2,681,024	\$ 2,944,790
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses, and refundable advances	\$ 200,772	\$ 294,304
Due to Parent	–	193,078
Other liabilities	–	35,049
Debt obligations	359,057	438,055
Total liabilities	559,829	960,486
Net assets:		
Unrestricted:		
Investment in land, building, and equipment	491,098	1,163,536
Board-designated for endowment purposes	1,388,674	753,087
Total unrestricted	1,879,772	1,916,623
Temporarily restricted	241,423	67,681
Total net assets	2,121,195	1,984,304
Total liabilities and net assets	\$ 2,681,024	\$ 2,944,790

See accompanying notes.

Covenant House New Orleans

Consolidated Statement of Activities

Year Ended June 30, 2005, With Summarized Financial Information
for the Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	Total	
			Year ended June 30 2005	2004
Contributions, revenue, and reclassifications:				
Contributions:				
Contribution from Parent	\$ 614,242	\$ -	\$ 614,242	\$ 600,000
Contributions from individuals, foundations, and corporations, including legacies and bequests totaling \$141,126 in 2005 and \$297,075 in 2004	2,483,110	214,493	2,697,603	2,982,097
Contributed services and merchandise	95,615	-	95,615	104,319
Government grants and contracts	777,335	-	777,335	1,779,370
Special events revenue, net of direct benefit to donor costs of \$57,771 in 2005 and \$30,751 in 2004	36,497	9,500	45,997	53,049
Total contributions	4,006,799	223,993	4,230,792	5,518,835
Revenue:				
Investment income:				
Interest and dividends	20,097	-	20,097	8,441
Net unrealized gains	9,247	-	9,247	29,151
Net realized gains	534,217	-	534,217	10,160
Covenant Café revenue, net of operating expenses of \$245,739 in 2005 and \$78,458 in 2004	421,607	-	421,607	133,329
Other income	26,327	-	26,327	72,034
Total revenue	1,011,495	-	1,011,495	253,115
Total contributions and revenue	5,018,294	223,993	5,242,287	5,771,950
Reclassifications:				
Net assets released from restrictions	50,251	(50,251)	-	-
Total contributions, revenue, and reclassifications	5,068,545	173,742	5,242,287	5,771,950
Expenses:				
Program service	3,814,416	-	3,814,416	4,279,544
Supporting services:				
Management and general	573,047	-	573,047	555,996
Fundraising	717,933	-	717,933	758,286
Total supporting services	1,290,980	-	1,290,980	1,314,282
Total expenses	5,105,396	-	5,105,396	5,593,826
Change in net assets	(36,851)	173,742	136,891	178,124
Net assets at beginning of year	1,916,623	67,681	1,984,304	1,806,180
Net assets at end of year	\$ 1,879,772	\$ 241,423	\$ 2,121,195	\$ 1,984,304

See accompanying notes.

Covenant House New Orleans

Consolidated Statement of Functional Expenses

Year Ended June 30, 2005, With Summarized Financial Information
for the Year Ended June 30, 2004

	Program Services					
	Shelter and Crisis Care	Outreach	Mother/ Child	Medical	Community Service Center	Public Education
Salaries and wages	\$ 869,558	\$ 67,321	\$ 355,234	\$ 27,901	\$ 231,967	\$ 44,086
Payroll taxes	88,514	6,341	35,976	2,732	23,283	3,889
Employee benefits	158,778	7,339	67,533	4,815	33,876	6,972
Total salaries and related expenses	1,116,850	81,001	458,743	35,448	289,126	54,947
Accounting fees	—	—	—	—	—	—
Legal fees	7,999	—	2,666	388	2,596	—
Medical fees	—	4,656	—	3,871	86	—
Consulting fees	7,752	—	2,584	189	5,733	33
Supplies	29,926	103	11,886	1,062	6,253	340
Telephone	11,931	4,574	4,299	445	6,923	916
Postage and printing	4,690	170	1,622	5	2,114	25,003
Occupancy:						
Fuel and utilities	54,536	—	20,157	1,380	12,327	—
Repairs and maintenance	21,114	—	7,038	1,855	8,271	—
Rent to Parent	86,171	—	32,073	3,279	1,630	—
Rent and other	19,638	—	6,547	176	34,700	—
Equipment	21,303	16	8,958	589	13,101	607
Transportation	24,155	15,658	8,052	421	9,827	518
Specific assistance to individuals:						
Food	73,906	1,380	24,635	—	—	—
Medical	118	—	54	8,508	222	—
Contributed medical	—	—	—	2,637	59	—
Clothing, allowances, and other	29,969	1,778	11,482	63	7,332	—
Contributed clothing and merchandise	6,418	—	2,139	—	—	—
Temporary help	4,485	—	1,627	578	599	—
Other purchased services	11,562	43	4,702	402	11,011	372
Dues, licenses, and permits	3,571	—	1,255	434	560	1
Subscriptions and publications	1,237	—	412	1	580	78
Staff recruitment	1,373	—	812	2,298	968	—
Insurance	21,707	966	9,311	841	6,308	996
Contributed services	2,235	—	745	70,808	1,803	—
Miscellaneous	9,851	—	3,422	48	9,461	354
Bank charges and fees	2,782	—	927	—	49,783	—
Interest	2,695	—	898	—	1,437	—
Total functional expenses before depreciation and amortization	1,577,974	110,345	627,046	135,726	482,810	84,165
Depreciation and amortization	44,933	5,140	17,262	642	20,338	333
Total functional expenses	1,622,907	115,485	644,308	136,368	503,148	84,498
Less direct costs of special events	—	—	—	—	—	—
Total expenses reported by function on statement of activities	\$ 1,622,907	\$ 115,485	\$ 644,308	\$ 136,368	\$ 503,148	\$ 84,498

		Supporting Services				Total	
Rights of Passage	Total Program Services	Management and General	Fund- Raising	Direct Cost of Special Events	Total Supporting Services	Year ended June 30 2005	2004
\$ 337,716	\$ 1,933,783	\$ 276,857	\$ 173,359	\$ —	\$ 450,216	\$ 2,383,999	\$ 2,806,937
33,974	194,709	25,581	15,477	—	41,058	235,767	272,017
57,590	336,903	55,394	29,602	—	84,996	421,899	368,779
429,280	2,465,395	357,832	218,438	—	576,270	3,041,665	3,447,733
—	—	38,950	2,050	—	41,000	41,000	45,151
2,909	16,558	3,130	593	—	3,723	20,281	4,741
344	8,957	—	—	—	—	8,957	11,788
5,127	21,418	33	50,471	—	50,504	71,922	97,016
8,986	58,556	7,969	3,771	—	11,740	70,296	86,416
10,857	39,945	14,381	4,294	—	18,675	58,620	51,756
3,165	36,769	8,959	362,250	—	371,209	407,978	474,084
45,008	133,408	14,342	3,033	—	17,375	150,783	143,572
11,564	49,842	5,707	1,866	—	7,573	57,415	53,841
52,578	175,731	26,460	5,594	—	32,054	207,785	207,786
34,718	95,779	529	176	—	705	96,484	46,094
9,255	53,829	13,576	4,695	—	18,271	72,100	85,070
7,293	65,924	9,475	3,044	—	12,519	78,443	68,470
16,513	116,434	—	—	—	—	116,434	116,557
762	9,664	—	—	—	—	9,664	9,095
234	2,930	—	—	—	—	2,930	5,446
8,249	58,873	—	—	—	—	58,873	190,778
—	8,557	175	795	—	970	9,527	16,702
2,430	9,719	1,539	513	—	2,052	11,771	8,814
8,425	36,517	27,143	45,502	—	72,645	109,162	93,909
1,695	7,516	401	2,194	—	2,595	10,111	3,537
506	2,814	256	1,278	—	1,534	4,348	5,152
778	6,229	1,390	79	—	1,469	7,698	3,745
11,538	51,667	8,090	2,195	—	10,285	61,952	72,381
7,577	83,168	92	—	—	92	83,260	82,104
4,660	27,796	4,310	755	57,771	62,836	90,632	46,771
2,225	55,717	25,045	2,994	—	28,039	83,756	31,094
2,156	7,186	—	—	—	—	7,186	2,840
688,832	3,706,898	569,784	716,580	57,771	1,344,135	5,051,033	5,512,443
18,870	107,518	3,263	1,353	—	4,616	112,134	112,134
707,702	3,814,416	573,047	717,933	57,771	1,348,751	5,163,167	5,624,577
—	—	—	—	57,771	57,771	57,771	30,751
\$ 707,702	\$ 3,814,416	\$ 573,047	\$ 717,933	\$ —	\$ 1,290,980	\$ 5,105,396	\$ 5,593,826

See accompanying notes.

Covenant House New Orleans
Consolidated Statements of Cash Flows

	Years Ended June 30	
	2005	2004
Operating activities		
Increase in net assets	\$ 136,891	\$ 178,124
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Noncash donations, net	102	(87,660)
Contribution of investments	(2,595)	(2,446)
Loan forgiveness	(56,529)	-
Discount on contributions receivable	80,047	-
Contributions restricted for building construction and fixed asset acquisitions	-	(28,170)
Contributed land, building, and equipment	(5,800)	(11,767)
Unrealized gains on investments	(9,247)	(29,151)
Depreciation and amortization	112,134	112,134
Amortization of loan discount	6,627	2,519
Change in fair value of assets held for sale	-	14,000
(Gain) loss on sale or disposal of land, building, and assets	(523,715)	1,611
(Gain) loss on sale or disposal of assets held for sale and investments	(10,502)	-
Changes in operating assets and liabilities:		
Contributions receivable	(266,219)	10,792
Grants receivable	155,705	541,918
Due to (from) parent	(303,340)	60,251
Prepaid expenses	11,420	42,553
Other assets	(20,339)	614
Other receivables	(9,578)	35,958
Accounts payable, accrued expenses, refundable advances, and other liabilities	(128,581)	(637,553)
Proceeds from contributions restricted for building construction and fixed asset acquisition	-	28,170
Proceeds from Community Development Block Grant	-	205,252
Net cash provided by (used in) operating activities	(833,519)	437,149
Investing activities		
Business acquisition	-	(154,555)
Sale of investments	1,062,095	474,188
Purchases of investments	(1,660,302)	(384,561)
Purchases of land, building, and equipment, net	(69,698)	(248,521)
Proceeds from sale of land, building, and equipment	1,056,828	13,845
Proceeds from sale of assets held for sale	6,335	-
Net cash provided by (used in) investing activities	395,258	(299,604)
Financing activities		
Proceeds from promissory note and line of credit	18,000	164,555
Payment of debt obligations	(47,096)	(11,667)
Net cash provided by (used in) financing activities	(29,096)	152,888
Net change in cash and cash equivalents	(467,357)	290,433
Cash and cash equivalents at beginning of year	623,396	332,963
Cash and cash equivalents at end of year	\$ 156,039	\$ 623,396

See accompanying notes.

Covenant House New Orleans

Notes to Consolidated Financial Statements

June 30, 2005

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, offers shelter, food, clothing, counseling, medical attention, crisis intervention, and other services to runaway and homeless youth. 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 consolidated 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' 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 had no permanently restricted net assets at June 30, 2005 or 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' Board of Directors has designated a portion of the unrestricted net assets of Covenant House New Orleans for endowment 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' 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 2005 or 2004.

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.

Inventory

Inventory consists of materials and supplies which, if purchased, are stated at the lower of cost or market using the average method, or if donated, are stated at current market value.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Summarized Financial Information for Fiscal 2004

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, 2004, from which the summarized information was derived.

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.

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.

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.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

3. Components of Program and Supporting Services (continued)

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.

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

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

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

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

Direct 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 fundraising activities for its own programs and the programs of its affiliates. Contributions and promises to give totaled approximately \$30.6 million and \$28.9 million for the Parent in the fiscal years ended 2005 and 2004, respectively. Fundraising expenses incurred by the Parent and allocated to affiliates totaled approximately \$8.3 million and \$9.8 million in the fiscal years ended 2005 and 2004, respectively. Support from the Parent to all affiliates arising from these

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

4. Related Party Transactions and Interaffiliate Transfers (continued)

activities was approximately \$20.4 million and \$20.0 million in fiscal years ended 2005 and 2004, respectively. Of this amount, the Organization received \$614,000 and \$600,000 in fiscal years ended 2005 and 2004, respectively.

In addition, the Parent conducts fundraising activities on behalf of certain affiliates for which costs are allocated to the respective affiliates. Contributions arising from these fundraising activities are recorded by the respective affiliates. In fiscal 2005 and 2004, expenses of \$418,000 and \$530,000, respectively, were charged by the Parent for such fundraising and other activities carried out on behalf of Covenant House affiliate, which are recorded as fundraising, management, and general activities in the statements of activities.

The Parent provides certain of its affiliates with insurance, computer access services, and data software and hardware maintenance. The Parent allocated expenses of approximately \$69,000 in 2005 and \$80,000 in 2004 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 2005.

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 discount rates ranging from 5.25% to 6%. The receivables are due as follows:

	June 30	
	2005	2004
Within one year	\$ 130,694	\$ 10,000
One to three years	90,000	20,000
Thereafter	75,000	—
	<u>295,694</u>	<u>30,000</u>
Less discount to present value	(80,047)	(525)
Present value of contributions receivable	<u>\$ 215,647</u>	<u>\$ 29,475</u>

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

5. Contributions Receivable (continued)

During 2005, Covenant House New Orleans has been named the beneficiary of a \$75,000 life insurance policy. The \$75,000 policy has Covenant House New Orleans designated as owner of the policy by the donor, and was recognized at its fair value (cash surrender value). The amounts have been classified as long-term due to the uncertainty associated with the timing of the receipt of these funds.

6. Investments

Investments at fair value consisted of the following:

	June 30	
	2005	2004
Cash and cash equivalents	\$ 396,184	\$ 25,431
Common stocks	226,175	260,346
Corporate debt securities	64,635	41,819
Beneficial interest in assets held by others	256,268	—
	<u>\$ 943,262</u>	<u>\$ 327,596</u>

During fiscal 2005, Covenant House New Orleans transferred \$250,000 of its cash to several foundations to establish endowment funds. The agreement with each foundation designates Covenant House New Orleans as beneficiary and states that the transfer is irrevocable and that transferred assets will not be returned. The foundations, however, will make annual distributions of the income earned on the endowment funds, subject to their respective spending policies. The agreements also grant variance powers, that is, permits each foundation to substitute another beneficiary, if Covenant House New Orleans ceases to exist, or the foundation's governing board votes that support of Covenant House New Orleans is no longer necessary or is inconsistent with the needs of the community. Covenant House New Orleans recognizes the fair value of the transferred assets as a beneficial interest in assets held by others and a component of its board-designated reserves. Covenant House New Orleans and the foundations are not financially inter-related; hence, the transfers are not equity transactions. Fair values of each fund as of June 30, 2005, are as follows:

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

Greater New Orleans Foundation	\$ 180,074
Jewish Endowment Foundation	25,000
The Catholic Foundation	25,476
Baton Rouge Area Foundation	25,718
	\$ 256,268

7. Assets Held for Sale

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

	June 30	
	2005	2004
Real estate held for sale	\$ 25,000	\$ 25,000
Other assets held for sale	77,205	78,655
	\$ 102,205	\$ 103,655

8. Notes Receivable

During fiscal 2005, Covenant House New Orleans sold its community service center building at 1000 N. Rampart St. to Turquoise Ventures, Inc. for the sum of \$1,180,000. As a result of the sale, a gain of approximately \$524,000 was realized and recorded in net realized gains.

The sale proceeds included a promissory note of \$129,800. This amount has been excluded from sales proceeds disclosed in the accompanying statement of cash flows. The note is payable, with interest, from November 29, 2004, at the rate of 6% per annum, over eight quarterly installments. Seven installments are interest only payments totaling approximately \$1,900, with the final installment to include all principal and accrued interest due and payable on December 1, 2006.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

9. Land, Building, and Equipment

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

	June 30	
	2005	2004
Land	\$ 3,000	\$ 100,500
Buildings and improvements	121,315	917,732
Equipment	1,361,738	1,385,366
Leasehold improvements	375,342	368,538
	<u>1,861,395</u>	<u>2,772,136</u>
Less accumulated depreciation and amortization	1,370,297	1,608,600
	<u>\$ 491,098</u>	<u>\$ 1,163,536</u>

10. Covenant Café 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 five-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 were included in the consolidated statement of activities for the period from the date of purchase through June 30, 2004.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

10. Covenant Café Purchase (continued)

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

	Covenant Café
Equipment	\$ 19,000
Goodwill	135,555
Total	\$ 154,555

Amortization expense of approximately \$27,100 and \$11,300 was recorded in 2005 and 2004, respectively.

11. Debt Obligations

CHNO had the following debt obligations:

	June 30	
	2005	2004
Line of credit	\$ 15,904	\$ 10,000
Promissory note payable, net of discount	117,035	145,407
Community Development Block Grant	226,118	282,648
	\$ 359,057	\$ 438,055

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 March 2008. The balance outstanding at June 30, 2005 and 2004, totaled \$16,235 and \$10,000, respectively, 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,

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

11. Debt Obligations (continued)

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 five-year period commencing in fiscal 2005.

Debt service requirements at June 30, 2005, were as follows:

2006		\$ 107,432
2007		91,528
2008		91,528
2009		79,869
		370,357
Less unamortized discount on notes payable		11,300
		\$ 359,057

12. Temporarily Restricted Net Assets

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

	June 30	
	2005	2004
Various donor-imposed purpose restrictions	\$ 241,423	\$ 58,206
Time restricted for future periods	-	9,475
	\$ 241,423	\$ 67,681

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

12. Temporarily Restricted Net Assets (continued)

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

	Years Ended June 30	
	2005	2004
Various donor-imposed purpose restrictions	<u>\$ 50,251</u>	<u>\$ 42,945</u>
	<u>\$ 50,251</u>	<u>\$ 42,945</u>

13. 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 \$143,864 and \$131,025 were allocated to Covenant House New Orleans from the Parent in fiscal 2005 and 2004, 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.

14. 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.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

15. 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 term ends 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, 2005, are as follows:

Years ending June 30:	
2005	\$ 48,844
2006	49,244
2007	24,622
	<u>\$ 122,710</u>

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.

16. Concentration of Cash and Cash Equivalents

At June 30, 2005, approximately \$222,000 of total cash and cash equivalents were held by one financial institution above the Federal Deposit Insurance Corporation insured limit.