

CONSOLIDATED FINANCIAL STATEMENTS

Covenant House New Orleans
Year Ended June 30, 2006, With Summarized Financial Information
for the Year Ended June 30, 2005



Covenant House New Orleans

Consolidated Financial Statements

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Contents

Report of Independent Auditors.....	1
Audited Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	2
Consolidated Statement of Activities.....	3
Consolidated Statement of Functional Expenses.....	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7

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, 2006, 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 2005 financial statements and, in our report dated November 18, 2005; 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 consolidated 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, 2006, 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

May 30, 2007

Covenant House New Orleans

Consolidated Statements of Financial Position

	June 30	
	2006	2005
Assets		
Cash and cash equivalents	\$ 544,637	\$ 156,039
Assets held for sale	99,680	102,205
Short-term contributions receivable, net	258,064	125,583
Due from Parent	524,063	110,262
Grants receivable	145,811	153,745
Other receivables, net of allowance for doubtful accounts of \$-0- in 2006 and \$8,009 in 2005	21,787	51,779
Inventory	3,466	3,482
Prepaid expenses	168,320	198,122
Land, building, and equipment, net	432,079	491,098
Long-term investments	700,620	943,262
Long-term contributions receivable, net	9,000	90,064
Long-term notes receivable	129,800	129,800
Goodwill, net	-	97,144
Other assets	11,712	28,439
Total assets	\$ 3,049,039	\$ 2,681,024
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses, and refundable advances	\$ 397,255	\$ 200,772
Due to affiliate	15,870	-
Debt obligations	288,530	359,057
Total liabilities	701,655	559,829
Net assets:		
Unrestricted:		
Investment in land, building, and equipment	432,079	491,098
Board-designated for endowment purposes	1,654,600	1,388,674
Total unrestricted	2,086,679	1,879,772
Temporarily restricted	260,705	241,423
Total net assets	2,347,384	2,121,195
Total liabilities and net assets	\$ 3,049,039	\$ 2,681,024

See accompanying notes.

Covenant House New Orleans

Consolidated Statement of Activities

Year Ended June 30, 2006, With Summarized Financial Information
for the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Years Ended June 30	
			2006	2005
Contributions, revenue, and reclassifications:				
Contributions:				
Contribution from Parent	\$ 597,112	\$ -	\$ 597,112	\$ 614,242
Contributions from individuals, foundations, and corporations, including legacies and bequests totaling \$259,584 in 2006 and \$141,126 in 2005	2,729,414	145,130	2,874,544	2,697,603
Contributed services and merchandise	34,723	-	34,723	95,615
Government grants and contracts	476,564	-	476,564	777,335
Special events revenue, net of direct benefit to donor costs of \$5,528 in 2006 and \$57,771 in 2005	85,964	230	86,194	45,997
Total contributions	3,923,777	145,360	4,069,137	4,230,792
Revenue:				
Investment income:				
Interest and dividends	28,595	-	28,595	20,097
Net unrealized gains	14,874	-	14,874	9,247
Net realized gains (losses)	(107,230)	-	(107,230)	534,217
Covenant Café revenue, net of operating expenses of \$60,943 in 2006 and \$245,739 in 2005	103,147	-	103,147	421,607
Other income	429,527	-	429,527	26,327
Total revenue	468,913	-	468,913	1,011,495
Total contributions and revenue	4,392,690	145,360	4,538,050	5,242,287
Reclassifications:				
Net assets released from restrictions	126,078	(126,078)	-	-
Total contributions, revenue, and reclassifications	4,518,768	19,282	4,538,050	5,242,287
Expenses:				
Program service	3,048,491	-	3,048,491	3,814,416
Supporting services:				
Management and general	536,979	-	536,979	573,047
Fund-raising	726,391	-	726,391	717,933
Total supporting services	1,263,370	-	1,263,370	1,290,980
Total expenses	4,311,861	-	4,311,861	5,105,396
Change in net assets	206,907	19,282	226,189	136,891
Net assets at beginning of year	1,879,772	241,423	2,121,195	1,984,304
Net assets at end of year	\$ 2,086,679	\$ 260,705	\$ 2,347,384	\$ 2,121,195

See accompanying notes.

Covenant House New Orleans

Consolidated Statement of Functional Expenses

	Program Services					
	Shelter and Crisis Care	Outreach	Mother/ Child	Medical	Community Service Center	Public Education
Salaries and wages	\$ 804,997	\$ 16,714	\$ 276,280	\$ 55,768	\$ 169,364	\$ 45,646
Payroll taxes	79,867	1,556	27,215	5,193	17,324	3,897
Employee benefits	175,258	4,901	63,040	8,077	36,996	6,914
Total salaries and related expenses	1,060,122	23,171	366,535	69,038	223,684	56,457
Accounting fees	-	-	-	-	-	-
Legal fees	6,238	-	1,560	223	334	-
Medical fees	48	776	12	6619	368	-
Consulting fees	13,392	-	3,348	685	1,737	4,047
Supplies	22,498	759	6,858	684	5,543	195
Telephone	10,074	3,630	2,657	465	2,577	652
Postage and printing	1,791	293	461	31	758	17,271
Occupancy:						
Fuel and utilities	51,208	-	15,186	1,698	23,314	-
Repairs and maintenance	21,585	-	5,447	1,970	7,825	-
Rent to Parent	70,199	-	22,265	2,264	56,974	-
Rent and other	4,076	-	1,019	77	13,459	-
Equipment	18,112	785	6,382	1,000	9,542	442
Transportation	42,672	9,313	10,691	2,509	10,705	728
Specific assistance to individuals:						
Food	51,194	-	12,880	-	560	-
Medical	-	-	-	13,089	727	-
Contributed medical	-	-	-	-	0	-
Clothing, allowances, and other	21,166	233	7,139	6	6,070	-
Contributed clothing and merchandise	3,751	-	938	-	-	-
Temporary help	808	-	202	101	604	-
Other purchased services	25,121	253	6,294	1,895	4,717	298
Dues, licenses, and permits	1,805	25	549	114	291	14
Subscriptions and publications	478	42	119	59	34	-
Staff recruitment	4,396	-	1,458	150	1,062	-
Insurance	25,304	-	8,629	595	14,886	1,781
Contributed services	2,693	-	673	22,883	1,291	-
Miscellaneous	16,125	25	4,037	212	12,115	-
Bank charges and fees	850	-	222	3	319	-
Interest	3,168	-	792	-	1,188	-
Total functional expenses before depreciation and amortization	1,478,874	39,305	486,353	126,370	400,684	81,885
Depreciation and amortization	32,459	3,868	12,085	497	4,908	445
Total functional expenses	1,511,333	43,173	498,438	126,867	405,592	82,330
Less direct costs of special events	-	-	-	-	-	-
Total expenses reported by function on statement of activities	\$ 1,511,333	\$ 43,173	\$ 498,438	\$ 126,867	\$ 405,592	\$ 82,330

See accompanying notes.

Rights of Passage	Total Program Services	Supporting Services				Total	
		Management and General	Fund-Raising	Direct Cost of Special Events	Total Supporting Services	Years Ended June 30	
						2006	2005
\$ 174,766	\$ 1,543,535	\$ 263,332	\$ 113,597	\$ -	\$ 376,929	\$ 1,920,464	\$ 2,383,999
17,430	152,482	23,591	9,831	-	33,422	185,904	235,767
35,233	330,419	59,564	27,256	-	86,820	417,239	421,899
227,429	2,026,436	346,487	150,684	-	497,171	2,523,607	3,041,665
-	-	40,634	2,139	-	42,773	42,773	41,000
557	8,912	1,812	1,153	-	2,965	11,877	20,281
368	8,191	-	-	-	-	8,191	8,957
5,672	28,881	2,587	14,495	-	17,082	45,963	71,922
2,906	39,443	7,193	1,251	-	8,444	47,887	70,296
5,765	25,820	10,449	3,761	-	14,210	40,030	58,620
1,357	21,962	5,247	462,442	-	467,689	489,651	407,978
23,673	115,079	14,489	2,842	-	17,331	132,410	150,783
5,530	42,357	6,544	2,024	-	8,568	50,925	57,415
24,561	176,263	26,337	5,185	-	31,522	207,785	207,785
10,107	28,738	1,828	396	-	2,224	30,962	96,484
6,167	42,430	14,143	5,402	-	19,545	61,975	72,100
12,197	88,815	4,276	6,561	-	10,837	99,652	78,443
9,151	73,785	-	-	-	-	73,785	116,434
727	14,543	-	-	-	-	14,543	9,664
-	-	-	-	-	-	-	2,930
6,060	40,674	-	-	-	-	40,674	58,873
-	4,689	-	-	-	-	4,689	9,527
101	1,816	303	101	-	404	2,220	11,771
10,682	49,260	26,971	58,668	-	85,639	134,899	109,162
613	3,411	134	117	-	251	3,662	10,111
71	803	168	396	-	564	1,367	4,348
1,005	8,071	1,162	142	-	1,304	9,375	7,698
5,688	56,883	10,024	3,436	-	13,460	70,343	61,952
1,443	28,983	788	84	-	872	29,855	83,260
8,548	41,062	3,478	1,925	5,528	10,931	51,993	90,632
737	2,131	7,232	1,786	-	9,018	11,149	83,756
2,772	7,920	-	-	-	-	7,920	7,186
373,887	2,987,358	532,286	724,990	5,528	1,262,804	4,250,162	5,051,033
6,871	61,133	4,693	1,401	-	6,094	67,227	112,134
380,758	3,048,491	536,979	726,391	5,528	1,268,898	4,317,389	5,163,167
-	-	-	-	5,528	5,528	5,528	57,771
\$ 380,758	\$ 3,048,491	\$ 536,979	\$ 726,391	\$ -	\$ 1,263,370	\$ 4,311,861	\$ 5,105,396

Covenant House New Orleans

Consolidated Statements of Cash Flows

	Years Ended June 30	
	2006	2005
Operating activities		
Increase in net assets	\$ 226,189	\$ 136,891
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Noncash donations, net	22	102
Contribution of investments	–	(2,595)
Loan forgiveness	(56,529)	(56,529)
Discount on contributions receivable	(5,111)	80,047
Contributed land, building, and equipment	–	(5,800)
Unrealized gains on investments	(14,874)	(9,247)
Depreciation and amortization	67,227	112,134
Amortization of loan discount	5,174	6,627
Loss (gain) on sale or disposal of land, building, and assets	121,671	(523,715)
Loss (gain) on sale or disposal of assets held for sale and investments	405	(10,502)
Changes in operating assets and liabilities:		
Contributions receivable	(46,306)	(266,219)
Grants receivable	7,934	155,705
Due from parent	(413,801)	(303,340)
Prepaid expenses	29,802	11,420
Other assets	16,727	(20,339)
Other receivables	29,992	(9,578)
Accounts payable, accrued expenses, and refundable advances	196,483	(128,581)
Due to affiliate	15,870	–
Net cash provided by (used in) operating activities	180,875	(833,519)
Investing activities		
Sale of investments	257,516	1,062,095
Purchases of investments	–	(1,660,302)
Purchases of land, building, and equipment, net	(91,510)	(69,698)
Proceeds from sale of land, building, and equipment	–	1,056,828
Proceeds from sale of assets held for sale	61,220	6,335
Net cash provided by investing activities	227,226	395,258
Financing activities		
Proceeds from promissory note and line of credit	–	18,000
Payment of debt obligations	(19,503)	(47,096)
Net cash used in financing activities	(19,503)	(29,096)
Net change in cash and cash equivalents	388,598	(467,357)
Cash and cash equivalents at beginning of year	156,039	623,396
Cash and cash equivalents at end of year	\$ 544,637	\$ 156,039

See accompanying notes.

Covenant House New Orleans

Notes to Consolidated Financial Statements

June 30, 2006

1. Organization

Covenant House New Orleans (CHNO) is a not-for-profit organization, which was established and incorporated in 1984. CHNO 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 CHNO 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 over 61,000 runaway and homeless youth. In addition, the Parent offers a national toll-free crisis intervention hotline.

During fiscal 2004, CHNO 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 CHNO, its sole member.

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

CHNO 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 CHNO, CHNO'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 CHNO 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, 2006 or 2005.
- Temporarily restricted net assets contain donor-imposed restrictions that permit CHNO to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of CHNO.
- 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, CHNO's Board of Directors has designated a portion of the unrestricted net assets of CHNO 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 CHNO's management.

The joint costs of certain informational mailings of CHNO that contain an appeal for funds are allocated between the public education program and fund-raising. No joint costs were incurred during fiscal year 2006 or 2005.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

CHNO records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, CHNO 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

CHNO 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 CHNO's 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. CHNO 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.

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.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired, and is amortized over a five-year period. During 2006, due to the impact of Hurricane Katrina, goodwill was considered impaired and written off. Further details are discussed in Footnote 10.

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

CHNO 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

CHNO 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.

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.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The following methods and assumptions were used by CHNO 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.

Summarized Financial Information for Fiscal 2005

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 CHNO's consolidated financial statements for the year ended June 30, 2006, 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.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

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.

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, CHNO 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.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

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. Contributions and promises to give totaled approximately \$33.7 million and \$30.6 million for the Parent in the fiscal years ended 2006 and 2005, respectively. Fund-raising expenses incurred by the Parent and allocated to affiliates totaled approximately \$9.4 million and \$8.3 million in the fiscal years ended 2006 and 2005, respectively. Support from the Parent to all affiliates arising from these activities was approximately \$14.5 million and \$20.4 million in fiscal years ended 2006 and 2005, respectively. Of this amount, CHNO received approximately \$597,000 and \$614,000 in fiscal years ended 2006 and 2005, respectively.

In addition, the Parent conducts fund-raising activities on behalf of certain affiliates for which costs are allocated to the respective affiliates. Contributions arising from these fund-raising activities are recorded by the respective affiliates. In fiscal 2006 and 2005, expenses of \$514,000 and \$418,000, respectively, were charged by the Parent for such fund-raising and other activities carried out on behalf of Covenant House affiliate, which are recorded as fund-raising, 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 \$136,000 in 2006 and \$69,000 in 2005 related to such services to CHNO.

CHNO 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 2006 and 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:

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

5. Contributions Receivable

	June 30	
	2006	2005
Within one year	\$ 257,000	\$ 130,694
One to three years	10,000	90,000
Thereafter	75,000	75,000
	342,000	295,694
Less discount to present value	74,936	80,047
Present value of contributions receivable	\$ 267,064	\$ 215,647

During 2005, CHNO was named the beneficiary of a \$10,000 and a \$75,000 life insurance policy. The \$75,000 policy has CHNO 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	
	2006	2005
Cash and cash equivalents	\$ 119,029	\$ 396,184
Common stocks	302,372	226,175
Corporate debt securities	—	64,635
Beneficial interest in assets held by others	279,219	256,268
	\$ 700,620	\$ 943,262

During fiscal 2005, CHNO transferred \$250,000 of its cash to several foundations to establish endowment funds. The agreement with each foundation designates CHNO 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 CHNO ceases to exist, or the foundation's governing board votes that support of CHNO is no longer necessary or is

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

inconsistent with the needs of the community. CHNO 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. CHNO and the foundations are not financially inter-related; hence, the transfers are not equity transactions. Fair values of each fund as of June 30, 2006, are as follows:

Greater New Orleans Foundation	195,615
Jewish Endowment Foundation	173
The Catholic Foundation	165
Baton Rouge Area Foundation	166
	<hr/>
	279,219
	<hr/> <hr/>

7. Assets Held for Sale

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

	June 30	
	2006	2005
	<hr/>	<hr/>
Real estate held for sale	\$ 25,000	\$ 25,000
Other assets held for sale	74,680	77,205
	<hr/>	<hr/>
	\$ 99,680	\$ 102,205
	<hr/> <hr/>	<hr/> <hr/>

8. Notes Receivable

During fiscal 2005, CHNO 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 were 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. The note was then amended to extend the payment period and allow for the final principal installment to be paid quarterly, including interest, in March, June, and September of 2007. The final installment, including principal and interest, is due on September 4, 2007.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

9. Land, Building, and Equipment

During fiscal 2006, CHNO recognized impairment losses on several of its assets as a result of Hurricane Katrina. CHNO's off-site transitional living (Dove) apartments were significantly damaged, which required adjustments to reflect fair market values. In addition to the loss of furniture and equipment within its residential and training facilities, an independent impairment analysis of the Covenant Café LLC supported the write-off previously recorded goodwill. In accounting for insurance payments to cover losses of its impaired assets, involuntary conversions of nonmonetary to monetary assets were recognized as gains or losses.

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

	June 30	
	2006	2005
Land	\$ 3,000	\$ 3,000
Buildings and improvements	100,155	121,315
Equipment	1,319,156	1,361,738
Leasehold improvements	370,342	375,342
	<u>1,792,653</u>	<u>1,861,395</u>
Less accumulated depreciation and amortization	1,360,574	1,370,297
	<u>\$ 432,079</u>	<u>\$ 491,098</u>

10. Covenant Café Purchase

During fiscal 2004, CHNO 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 CHNO, its sole member.

In connection with the acquisition, CHNO recorded goodwill representing the purchase price in excess of net asset values and related acquisition costs. Goodwill was to be amortized over a five-year period. During 2006, the carrying value of the remaining goodwill was reduced to zero based on the impact of the Hurricane Katrina disaster. The write-off of \$93,000 of unamortized goodwill is reflected as a realized loss in the consolidated statement of activities.

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

10. Covenant Café Purchase

As of the acquisition date, and prior to its write-off due to the Hurricane Katrina disaster, the following values were assigned to the assets acquired from Coffee & Company, based on their estimated fair values:

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

Amortization expense of approximately \$4,500 and \$27,100 was recorded in 2006 and 2005, respectively.

11. Debt Obligations

CHNO had the following debt obligations:

	June 30	
	2006	2005
Line of credit	\$ 14,232	\$ 15,904
Promissory note payable, net of discount	104,709	117,035
Community Development Block Grant	169,589	226,118
	\$ 288,530	\$ 359,057

CHNO 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 in March 2008. The balance outstanding at June 30, 2006 and 2005, totaled \$14,232 and \$16,235, 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

Covenant House New Orleans

Notes to Consolidated Financial Statements (continued)

11. Debt Obligations (continued)

estimated at \$20,445, based on a 5% interest rate. In return, CHNO 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, CHNO 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 CHNO and will be forgiven over a five-year period commencing in fiscal 2005.

Debt service requirements at June 30, 2006, were as follows:

2007	\$ 123,255
2008	91,528
2009	79,871
2010	—
	294,654
Less unamortized discount on notes payable	6,124
	\$ 288,530

12. Temporarily Restricted Net Assets

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

	June 30	
	2006	2005
Various donor-imposed purpose restrictions	\$ 260,705	\$ 241,423
	\$ 260,705	\$ 241,423

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	
	2006	2005
Various donor-imposed purpose restrictions	\$ 126,078	\$ 50,251
	<u>\$ 126,078</u>	<u>\$ 50,251</u>

13. Pension Plan

CHNO 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 \$156,618 and \$143,864 were allocated to CHNO from the Parent in fiscal 2006 and 2005, respectively. Separate participant data for CHNO is not available.

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

14. Tax-Exempt Status

CHNO 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, CHNO 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

CHNO 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, 2006, are as follows:

Years ending June 30:	
2007	\$ 49,244
2008	24,622
	<hr/>
	\$ 73,866

16. Concentration of Cash and Cash Equivalents

At June 30, 2006, approximately 44% of total cash and cash equivalents were held by one financial institution above the Federal Deposit Insurance Corporation insured limit.