

Consolidated Financial Statements  
and Report of Independent Certified Public  
Accountants

**Covenant House New Orleans**

June 30, 2011

# Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8



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## **Report of Independent Certified Public Accountants**

The Board of Directors  
Covenant House New Orleans

We have audited the accompanying consolidated statement of financial position of Covenant House New Orleans and subsidiary (the "Organization") as of June 30, 2011, 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 the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's fiscal 2010 financial statements and, in our report dated January 27, 2011, we expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the Organization's 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Covenant House New Orleans and subsidiary as of June 30, 2011, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Grant Thornton LLP*

Houston, Texas  
November 14, 2011

**Covenant House New Orleans**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2011, with summarized financial information  
for the year ended June 30, 2010

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 290,097	\$ 96,584
Restricted cash	-	60,652
Investments	2,719	20,631
Short-term contributions receivable, net	-	28,746
Grants receivable	182,875	292,879
Other receivables, net	41,326	49,185
Inventory	3,842	11,591
Prepaid expenses	11,777	15,487
Property, plant and equipment, net	316,668	360,697
Property held for sale	11,413	25,391
Long-term contributions receivable, net	13,630	22,601
Beneficial interest in assets held by others	302,814	274,667
Other assets	14,716	16,906
Total assets	\$ 1,191,877	\$ 1,276,017
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accrued expenses and refundable advances	\$ 376,968	\$ 581,932
Debt obligations - to parent	558,875	558,875
Due to parent	266,507	144,817
Debt-short-term	-	73,979
Debt-long-term	25,039	33,980
Total liabilities	1,227,389	1,393,583
Net assets:		
Unrestricted:		
Loss from operations	(673,195)	(830,319)
Investment in property, plant and equipment	316,668	360,697
Board-designated for endowment purposes	302,814	274,667
Total unrestricted	(53,713)	(194,955)
Temporarily restricted	18,201	77,389
Total net (deficit) assets	(35,512)	(117,566)
Total liabilities and net assets	\$ 1,191,877	\$ 1,276,017

The accompanying notes are an integral part of these consolidated financial statements.

## Covenant House New Orleans

### CONSOLIDATED STATEMENT OF ACTIVITIES Year ended June 30, 2011, with summarized financial information for the year ended June 30, 2010

	Unrestricted	Temporarily restricted	Total 2011	Total 2010
Contributions, revenue and reclassifications:				
Contributions:				
Contributions from individuals, foundations, and corporations, including legacies and bequests of \$40,042 in 2011 and \$21,674 in 2010	\$ 947,338	\$ 5,600	\$ 952,938	\$ 661,906
Contributed services and merchandise	614,831	-	614,831	782,810
Government grants and contracts	734,871	-	734,871	1,066,073
Branding Dollars from Parent	2,225,000	-	2,225,000	2,326,680
Special events revenue	44,971	-	44,971	76,222
Less: Direct benefit to donor costs	(21,765)	-	(21,765)	(37,494)
Total contributions	4,545,246	5,600	4,550,846	4,876,197
Revenue:				
Investment income:				
Interest and dividends	5,243	-	5,243	12,769
Net unrealized gains	38,995	-	38,995	42,810
Net realized losses	(7,065)	-	(7,065)	(3,745)
Job-training programs revenue	306,728	-	306,728	550,536
Less: Costs of goods sold	(89,922)	-	(89,922)	(249,854)
	216,806	-	216,806	300,682
Other income	90,517	-	90,517	108,785
Total revenue	344,496	-	344,496	461,301
Total contributions and revenue	4,889,742	5,600	4,895,342	5,337,498
Net assets released from restrictions	64,788	(64,788)	-	-
Total contributions, revenue and reclassifications	4,954,530	(59,188)	4,895,342	5,337,498
Expenses:				
Program services	4,006,396	-	4,006,396	4,926,570
Supporting services:				
Management and general	555,276	-	555,276	633,643
Fund-raising	251,616	-	251,616	340,707
Total supporting services	806,892	-	806,892	974,350
Total expenses	4,813,288	-	4,813,288	5,900,920
Change in net assets	141,242	(59,188)	82,054	(563,422)
Net assets at beginning of year	(194,955)	77,389	(117,566)	445,856
Net assets at end of year	\$ (53,713)	\$ 18,201	\$ (35,512)	\$ (117,566)

The accompanying notes are an integral part of these consolidated financial statements.

**Covenant House New Orleans**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
 Year ended June 30, 2011, with summarized financial information  
 for the year ended June 30, 2010

	Program services										Supporting services			Cost of direct benefits to donors
	Shelter and crisis care	Outreach	Mother/child	Medical	Community Service Center	Public education	Rights of passage/in-school	Total program services	Management and general	Fund raising	Total supporting services	Total		
												2011	2010	
Salaries and wages	\$ 844,647	\$ 34,743	\$ 352,843	\$ 67,188	\$ 150,765	\$ 25,178	\$ 208,348	\$ 1,683,712	\$ 280,675	\$ 170,580	\$ 451,255	\$ -	\$ 2,134,967	\$ 2,482,072
Payroll taxes	90,997	3,543	37,428	6,670	16,962	2,271	21,744	179,615	26,740	16,238	42,978	-	222,593	268,891
Employee benefits	163,675	6,129	72,693	11,073	19,152	1,790	40,038	314,550	51,637	21,798	73,435	-	387,985	394,098
Total salaries and related expenses	1,099,319	44,415	462,964	84,931	186,879	29,239	270,130	2,177,877	359,052	208,616	567,668	-	2,745,545	3,145,061
Accounting fees	-	-	-	-	-	-	-	-	57,847	-	57,847	-	57,847	61,189
Legal fees	42	-	13	9	18	28	18	128	28	-	56	-	184	495
Medical fees	-	-	-	35,818	5,970	-	18,623	60,411	-	-	-	-	60,411	149,296
Consulting fees	2,091	-	660	212	4,864	2,400	959	11,186	587	537	1,124	-	12,310	56,042
Supplies	28,478	202	9,475	1,544	4,201	175	3,810	47,885	8,066	1,660	9,726	-	57,611	112,194
Telephone	9,270	596	3,175	1,646	3,190	321	14,530	32,728	4,683	2,168	6,851	-	39,579	49,874
Postage & printing	1,838	688	580	516	2,113	846	729	7,310	3,382	3,336	6,718	-	14,028	45,625
Occupancy:														
Fuel and utilities	53,753	-	20,976	3,996	18,495	-	25,670	122,890	9,883	1,925	11,808	-	134,698	166,547
Repairs and maintenance	29,842	-	9,424	4,920	10,016	-	4,446	58,648	7,476	1,001	8,477	-	67,125	58,952
Contributed facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	1,875
Rent to Corporate	90,902	-	37,121	6,479	35,173	-	15,210	184,885	19,160	3,740	22,900	-	207,785	207,785
Rent and other	26,403	-	8,338	303	11,933	-	95,824	142,801	2,744	546	3,290	-	146,091	175,599
Equipment	30,890	1	10,543	1,813	3,753	68	18,177	65,245	16,479	3,682	20,161	-	85,406	70,329
Transportation	33,631	4,260	10,668	923	10,385	191	8,885	68,943	1,268	3,460	4,728	-	73,671	97,167
Specific assistance to individuals:														
Food	58,711	-	21,147	-	7,652	-	897	88,407	-	-	-	-	88,407	109,664
Medical	15	-	5	6,834	1,121	-	3,363	11,338	-	-	-	-	11,338	22,219
Contributed medical	-	-	-	3,142	24,982	-	-	28,124	-	-	-	-	28,124	43,623
Clothing, allowance and other	17,646	3,497	8,719	95	82,398	-	11,551	123,906	-	-	-	-	123,906	250,285
Contributed clothing and merchandise	7,647	-	2,415	-	-	-	1,571	11,633	413	372	785	-	12,418	21,423
Temporary help	279	-	88	24	127	-	881	1,399	36	5	41	-	1,440	560
Other purchased services	19,539	606	6,170	3,069	8,888	123	5,270	43,665	26,526	2,293	28,819	-	72,484	98,673
Dues, licenses and permits	2,109	28	922	158	274	67	598	4,156	276	157	433	-	4,589	5,798
Subscriptions and publications	151	5	48	244	43	3	128	622	43	14	57	-	679	8,224
Staff recruitment	-	-	-	-	-	-	-	-	-	-	-	-	-	329
Insurance	19,467	514	8,035	1,539	14,069	39	6,968	50,631	5,430	1,081	6,511	-	57,142	71,501
Contributed services	-	-	-	53,973	493,330	-	26,986	574,289	-	-	-	-	574,289	715,889
Miscellaneous	5,340	55	1,686	164	3,593	-	1,146	11,984	11,200	10,082	21,282	21,765	55,031	63,776
Bank charges and fees	661	-	209	8	274	271	290	1,713	9,047	5,152	14,199	-	15,912	32,560
Interest to Corporate	-	-	-	-	-	-	-	-	8,014	-	8,014	-	8,014	8,046
Interest	1,729	-	546	-	765	-	638	3,678	-	-	-	-	3,678	4,567
Total functional expenses before depreciation and amortization	1,539,753	54,867	623,927	212,360	934,506	33,771	537,298	3,936,482	551,640	249,855	801,495	21,765	4,759,742	5,855,167
Depreciation and amortization	38,950	87	14,554	873	2,941	190	12,319	69,914	3,636	1,761	5,397	-	75,311	83,247
Total functional expenses	1,578,703	54,954	638,481	213,233	937,447	33,961	549,617	4,006,396	555,276	251,616	806,892	21,765	4,835,053	5,938,414
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	(21,765)	(21,765)	(37,494)
Total expenses reported by function on the statement of activities	\$ 1,578,703	\$ 54,954	\$ 638,481	\$ 213,233	\$ 937,447	\$ 33,961	\$ 549,617	\$ 4,006,396	\$ 555,276	\$ 251,616	\$ 806,892	\$ -	\$ 4,813,288	\$ 5,900,920

The accompanying notes are an integral part of these consolidated financial statements.

## Covenant House New Orleans

### CONSOLIDATED STATEMENT OF CASH FLOWS Year ended June 30, 2011, with summarized information for the year ended June 30, 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 82,054	\$ (563,422)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Loss on sale of property held for sale	11,309	26,263
Net unrealized gains on investments	(38,995)	(42,810)
Amortization of loan discount	979	(1,965)
Depreciation	75,311	83,247
Contributed property, plant and equipment	(22,340)	(22,641)
Changes in operating assets and liabilities:		
Contributions receivable	37,717	(14,406)
Grants receivable	110,004	71,499
Due to/from affiliate	121,690	129,708
Other receivables	7,859	(13,527)
Prepaid expenses	3,710	4,396
Inventory	7,749	3,127
Other assets	2,190	1,964
Accounts payable, accrued expenses and refundable advances	(204,964)	(135,724)
Net cash provided by (used in) operating activities	194,273	(474,291)
Cash flows from investing activities:		
Proceeds from sale of investments	38,600	1,360,577
Purchases of investments	(9,840)	(1,097,875)
Purchases of land, building and equipment, gross	(34,848)	(65,384)
Disposals of land and buildings	12,390	10,000
Proceeds from sale of property held for sale	16,185	21,613
Restricted advances from federal awarding agencies/pass through	60,652	81,961
Net cash provided by investing activities	83,139	310,892
Cash flows from financing services:		
Loan from Parent designated for operations	-	100,001
Borrowing of debt obligations/proceeds from loans	-	69,625
Payment of debt obligations	(83,899)	(9,266)
Net cash (used in) provided by financing activities	(83,899)	160,360
Net change in cash and cash equivalents	193,513	(3,039)
Cash and cash equivalents at beginning of year	96,584	99,623
Cash and cash equivalents at end of year	\$ 290,097	\$ 96,584
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 10,713	\$ 11,782
Contributed property, plant and equipment	\$ 22,340	\$ 22,641

The accompanying notes are an integral part of these consolidated financial statements.

## Covenant House New Orleans

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(with comparative totals for 2010)

#### NOTE A – ORGANIZATION

Covenant House New Orleans and subsidiary (collectively, the “Organization”) is a not-for-profit organization, which was established and incorporated in 1984. The Organization 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 the Organization 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 56,000 runaway and homeless youth during the current fiscal year. In addition, the Parent offers a national toll-free crisis intervention hotline.

In February 2004, Covenant Café, LLC was formed and acquired certain business assets of Coffee & Company, with operations in New Orleans, Louisiana. Covenant House New Orleans is the sole member of Covenant Café, LLC, which is considered a disregarded entity for tax purposes. Covenant Café provides the Organization with a coffee and catering business that serves as a job-training program for at risk youth. The Organization ceased operations of Covenant Café, LLC during fiscal year 2011.

The Organization is affiliated with the following additional not-for-profit organizations through common control by its Parent:

- Covenant House New York/Under 21
- Covenant House Alaska
- Covenant House California
- Covenant House Florida
- Covenant House Georgia
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Testamentum

In addition, the Parent is the sole member of Covenant International Foundation (“CIF”), a not-for-profit corporation. CIF is a member of the following international not-for-profit affiliates:

- Covenant House Toronto
- Covenant House Vancouver
- Asociacion Casa Alianza (Guatemala), dissolved 2010
- Asociacion La Alianza (Guatemala), established 2010
- Casa Alianza De Honduras
- Casa Alianza Nicaragua
- Casa Alianza Internacional
- Fundacion Casa Alianza Mexico, I.A.P.

#### NOTE B – 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, 21 and under.

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

## Covenant House New Orleans

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

(with comparative totals for 2010)

#### NOTE B – COMPONENTS OF PROGRAM AND SUPPORTING SERVICES – Continued

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

*Medical* services include basic medical services, referrals, HIV testing, mental health 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, the Organization also provides counseling and intervention services, and work-related instruction and experience through the White Dove Landscape and Covenant Café training programs. In addition, in the aftermath of Hurricane Katrina, the Organization offered its facilities as a temporary relief center for several service providers to aid the needy, which currently includes the Tulane Medical Center's Primary Adult Walk-in and Adolescent drop-in clinics, and the Urban League's Head Start Program.

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 residential services for up to 18 months to youths, including individual counseling, help with completing their education, finding jobs and ultimately long term housing.

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

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

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

#### NOTE C – LIQUIDITY

The Organization's revenues and contributions exceeded its expenses in its fiscal year ended June 30, 2011, though its liabilities exceeded its assets as of June 30, 2011 by approximately \$36,000. As discussed in Note J, the Organization has outstanding loans to the Parent of approximately \$559,000 due by June 30, 2012.

In response to the country's current economy and the Organization's financial condition as of June 30, 2010, management reduced salaries and staff, converted full-time positions to part-time positions, eliminated some programs, and increased fundraising efforts during fiscal year 2011. Management believes that these factors, in addition to the anonymous unrestricted gifts during the year, contributed to the favorable change in net assets as of June 30, 2011.

## Covenant House New Orleans

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

(with comparative totals for 2010)

#### NOTE D – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 1. Principles of Consolidation

The accompanying consolidated financial statements include the balances and activities of Covenant House New Orleans and Covenant Café LLC. All significant intercompany amounts and transactions have been eliminated.

##### 2. Summarized Financial Information Fiscal Year 2010

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class, such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010 from which the summarized information was derived.

##### 3. Net Asset Classification

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the Organization's operations. Unrestricted net assets may be used at the discretion of the Organization's management and Board of Directors.

- Investment in Property, Plant and Equipment - consists of the net book value of property, plant and equipment less any related debt obligations, if applicable.

Temporarily restricted - represent amounts restricted by donors and grantors for specific activities of the Organization or to be used at some future date.

##### 4. 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 the Organization's management.

##### 5. Revenue Recognition

The Organization records earned revenues on an accrual basis. In addition, the Organization 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. Non-monetary contributions are valued at fair market value and recognized as those contributions are utilized.

## Covenant House New Orleans

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

(with comparative totals for 2010)

#### NOTE D – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Contributions received from Parent includes contributions received from individuals, corporations and foundations as a result of fundraising activities conducted by the Parent on behalf of the Organization and other Covenant House Affiliates. It also includes a subsidy or contribution from Parent to help support the program activities of the Organization. Covenant House Parent refers to this as “Branding Dollars” or “Contributions Received from Parent.”

#### 6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### 7. Cash and Cash Equivalents

The Organization considers highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

#### 8. Allowance for Doubtful Accounts

The Organization maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its customer to make required payments. Such allowances are based upon several factors including, but not limited to, historical experience and the financial condition of the customer.

#### 9. Investments and Investment Income

Marketable equity securities and debt obligations are carried at quoted market value. Income earned from investments, including realized and unrealized gains and losses is recorded in the net asset class owning the assets. The following methods and assumptions were used by the Organization in estimating its fair value for financial instruments:

*Cash and cash equivalents:* The carrying amounts reported in the accompanying consolidated statement of financial position for cash and cash equivalents approximates fair value due to the short maturity of the investments.

*Common stocks, mutual funds and debt securities:* Fair values of common stocks, mutual funds and debt securities are based on quoted market prices.

## Covenant House New Orleans

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

(with comparative totals for 2010)

#### NOTE D – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

*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.

*Beneficial interest in assets held by others:* The fair value of the assets is based on its ratable share of the fair value of the underlying assets held by others at the measurement date.

The Organization follows the fair value guidance, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of June 30, 2011. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of June 30, 2011. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of June 30, 2011. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

See Note H for additional information regarding investments.

**Covenant House New Orleans**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

(with comparative totals for 2010)

**NOTE D – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**10. Inventories**

Inventories consist of materials and supplies which, if purchased, are stated at the lower of cost or market under the average method, or if donated, are stated at current market value.

**11. Property, Plant and Equipment**

Property, plant 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.

**12. Temporarily Restricted Contributions**

The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. It is the Organization's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class activity.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, property, plant and equipment) are reported as temporarily restricted. The Organization 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 reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

**13. 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.

Contributions of merchandise are valued at fair market value at the date of receipt and are recognized as revenue when received and expensed from inventory when used.

## Covenant House New Orleans

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

(with comparative totals for 2010)

#### NOTE E – RELATED-PARTY TRANSACTIONS AND INTER-AFFILIATE TRANSFERS

The Parent provides financial support as well as management and organizational support for its affiliated organizations. It also conducts fundraising activities for its own programs and the programs of its affiliates. Contributions and promises to give totaled approximately \$54.1 million and \$51.7 million for the Parent in the fiscal years ended 2011 and 2010, respectively. Contributions received by the Parent are generally not specifically restricted by donors to specific affiliates.

In fiscal year 2009, the Parent changed its policy of allocating contributions to its affiliates. It combined contributions received from individuals, corporations and foundations plus subsidy and appropriated “Branding Dollars” or “Contributions Received by Parent” to each Covenant House affiliate. In fiscal 2011 and 2010, the Organization received contributions from Parent totaling \$2,225,000 and \$2,326,680, respectively.

Contributions received by the Parent and allocated to affiliates, based on the Parent’s policy in effect at the time, approximated \$34.2 million and \$33.8 million in fiscal 2011 and 2010, respectively.

The Parent provides certain of its affiliates with insurance, computer access services, and data software and hardware maintenance. The Parent allocated expenses of approximately \$170,000 in 2011 and \$172,000 in 2010 related to such services to the Organization. These expenses were not all paid by the Organization during the year, which constitutes the due to Parent/affiliates balance at year end. The balance due Parent at June 30 totaled approximately \$267,000 and \$145,000 for 2011 and 2010, respectively.

The Organization leases its program facility from the Parent on a month-to-month basis. Rent paid to the Parent amounted to approximately \$208,000 during fiscal years 2011 and 2010.

#### NOTE F – ALLOCATION OF JOINT COSTS

The joint costs of certain informational mailings that contain an appeal for funds are allocated between the public education program and fund-raising. No joint costs were incurred during fiscal year 2011 and 2010.

**Covenant House New Orleans**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

(with comparative totals for 2010)

**NOTE G – CONTRIBUTIONS AND OTHER RECEIVABLES**

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. Those receivables that are due in more than one year have been discounted to their present value using a discount rate of 6.75%. The receivables are due as follows as of June 30, 2011 and 2010:

	2011	2010
Within one year	\$ -	\$ 28,746
Five years and after	75,000	85,000
	75,000	113,746
Less: Unamortized discount	(61,370)	(62,399)
Present value of contributions receivable	\$ 13,630	\$ 51,347

The Organization has been named the beneficiary and owner of a \$75,000 life insurance policy which has a cash surrender value. The policy is recognized at fair value and is included in contributions receivable in the accompanying consolidated statement of financial position. The amount has been classified as long-term due to the uncertainty associated with the timing of the receipt of funds. The cash surrender value of approximately \$8,800 is included in other assets.

Other receivables primarily include the White Dove Landscape training program sales and/or services, net of allowances for doubtful accounts. The net balance at June 30 totaled approximately \$25,000 and \$28,000 for 2011 and 2010, respectively.

Changes in the Organization's allowance for uncollectible other receivables are as follows:

	2011	2010
Beginning balance	\$ 5,335	\$ 9,829
Write off of uncollectible receivables	(633)	(4,494)
Ending balance	\$ 4,702	\$ 5,335

**Covenant House New Orleans**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED  
 June 30, 2011  
 (with comparative totals for 2010)

**NOTE H – INVESTMENTS AND OTHER ASSETS**

Investments at June 30, 2011 and 2010 consist of:

	Total fair value	
	2011	2010
Money market	\$ 2,719	\$ 20,631
Total investments	\$ 2,719	\$ 20,631
Beneficial interest in assets held by others	\$ 302,814	\$ 274,667

Property held for sale at June 30, 2011 and 2010 consist of:

	2011	2010
Other assets held for sale	\$ 11,413	\$ 25,391
Total property held for sale	\$ 11,413	\$ 25,391

As required by fair value guidance, financial assets at fair value presented by level of input used to measure fair value consisted of the following at June 30, 2011:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,719	\$ -	\$ -	\$ 2,719
	\$ 2,719	\$ -	\$ -	\$ 2,719
Beneficial interest in assets held by others:				
Greater New Orleans Foundation	\$ -	\$ -	\$ 215,155	\$ 215,155
Jewish New Orleans Foundation			29,698	29,698
The Catholic Foundation			31,909	31,909
Baton Rouge Area Foundation			26,052	26,052
Total beneficial interest in assets held by others	\$ -	\$ -	\$ 302,814	\$ 302,814

**Covenant House New Orleans**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

(with comparative totals for 2010)

**NOTE H – INVESTMENTS AND OTHER ASSETS – Continued**

The following table summarizes the changes in financial assets measured on a recurring basis at fair value for which the Organization has used Level 3 inputs for the year ended June 30, 2011:

Balance, beginning of year	\$ 274,667
Purchases and sales, net	(15,092)
Realized/unrealized gains	<u>43,239</u>
Balance, end of year	<u><u>\$ 302,814</u></u>

As required by fair value guidance, financial assets at fair value presented by level of input used to measure fair value consisted of the following at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 20,631	\$ -	\$ -	\$ 20,631
	\$ 20,631	\$ -	\$ -	\$ 20,631
Beneficial interest in assets held by others:				
Greater New Orleans Foundation	\$ -	\$ -	\$ 191,193	\$ 191,193
Jewish New Orleans Foundation	-	-	27,840	27,840
The Catholic Foundation	-	-	27,860	27,860
Baton Rouge Area Foundation	-	-	27,774	27,774
Total beneficial interest in assets held by others	\$ -	\$ -	\$ 274,667	\$ 274,667

The following table summarizes the changes in financial assets measured on a recurring basis at fair value for which the Organization has used Level 3 inputs for the year ended June 30, 2010:

Balance, beginning of year	\$ 251,061
Purchases and sales, net	(3,608)
Realized/unrealized gains	<u>27,214</u>
Balance, end of year	<u><u>\$ 274,667</u></u>

During fiscal 2005, the Organization transferred \$250,000 of its cash reserves to several foundations to establish an endowment fund. The agreement with each foundation designates the Organization 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

