

Consolidated Financial Statements
and Report of Independent Certified Public
Accountants

Covenant House New Orleans

June 30, 2010

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Audit • Tax • Advisory

Grant Thornton LLP
333 Clay Street, 27th Floor
Houston, TX 77002-4168

T 832.476.3600
F 713.655.8741
www.GrantThornton.com

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, 2010, 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.

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 audits provide 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, 2010, and the consolidated changes in their net assets and the results of 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 January 27, 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
January 27, 2011

Covenant House New Orleans

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2010, with summarized financial information
as of June 30, 2009

ASSETS	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 96,584	\$ 99,623
Restricted cash	60,652	142,613
Investments	20,631	264,129
Short-term contributions receivable, net	28,746	17,941
Grants receivable	292,879	364,378
Other receivables, net	49,185	35,658
Inventory	11,591	14,718
Prepaid expenses	15,487	19,883
Property, plant and equipment, net	360,697	363,560
Property held for sale	25,391	75,626
Long-term contributions receivable, net	22,601	19,000
Beneficial interest in assets held by others	274,667	251,061
Other assets	16,906	18,870
Total assets	<u>\$ 1,276,017</u>	<u>\$ 1,687,060</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accrued expenses and refundable advances	\$ 581,932	\$ 717,656
Debt obligations - to parent	558,875	458,874
Due to parent/affiliate	144,817	15,109
Debt-short-term	73,979	-
Debt-long-term	33,980	49,565
Total liabilities	<u>1,393,583</u>	<u>1,241,204</u>
Net assets:		
Unrestricted:		
Loss from operations	(830,319)	(252,327)
Investment in property, plant and equipment	360,697	363,560
Board-designated for endowment purposes	274,667	251,061
Total unrestricted	<u>(194,955)</u>	<u>362,294</u>
Temporarily restricted	<u>77,389</u>	<u>83,562</u>
Total net (deficit) assets	<u>(117,566)</u>	<u>445,856</u>
Total liabilities and net assets	<u>\$ 1,276,017</u>	<u>\$ 1,687,060</u>

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

Covenant House New Orleans

CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2010, with summarized financial information
as of June 30, 2009

	Unrestricted	Temporarily restricted	Total 2010	Total 2009
Contributions, revenue and reclassifications:				
Contributions:				
Contributions from individuals, foundations, and corporations, including legacies and bequests of \$21,674 in 2010 and \$186,504 in 2009	\$ 632,967	\$ 28,939	\$ 661,906	\$ 919,663
Contributed services and merchandise	782,810	-	782,810	1,054,760
Government grants and contracts	1,066,073	-	1,066,073	1,255,847
Branding Dollars from Parent	2,326,680	-	2,326,680	1,606,811
Special events revenue	76,222	-	76,222	85,618
Less: Direct benefit to donor costs	(37,494)	-	(37,494)	(36,840)
Total contributions	4,847,258	28,939	4,876,197	4,885,859
Revenue:				
Investment income:				
Interest and dividends	12,769	-	12,769	13,525
Net unrealized gains (losses)	42,810	-	42,810	(58,094)
Net realized losses	(3,745)	-	(3,745)	(86,412)
Job-training programs revenue	550,536	-	550,536	569,646
Less: Costs of goods sold	(249,854)	-	(249,854)	(273,667)
	300,682	-	300,682	295,979
Other income	108,785	-	108,785	120,769
Total revenue	461,301	-	461,301	285,767
Total contributions and revenue	5,308,559	28,939	5,337,498	5,171,626
Net assets released from restrictions	35,112	(35,112)	-	-
Total contributions, revenue and reclassifications	5,343,671	(6,173)	5,337,498	5,171,626
Expenses:				
Program services	4,926,570	-	4,926,570	5,219,878
Supporting services:				
Management and general	633,643	-	633,643	588,244
Fund-raising	340,707	-	340,707	308,933
Total supporting services	974,350	-	974,350	897,177
Total expenses	5,900,920	-	5,900,920	6,117,055
Change in net assets	(557,249)	(6,173)	(563,422)	(945,429)
Net assets at beginning of year	362,294	83,562	445,856	1,391,285
Net assets at end of year	\$ (194,955)	\$ 77,389	\$ (117,566)	\$ 445,856

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, 2010, with summarized financial information
as of June 30, 2009

	Program services										Supporting services			Total	
	Shelter and crisis care	Outreach	Mother/child	Nineline	Medical	Community Service Center	Public education	Rights of passage/in-school	Total program services	Management and general	Fund raising	Total supporting services	Cost of direct benefits to donors		
													2010		2009
Salaries and wages	\$ 909,848	\$ 43,926	\$ 397,331	\$ -	\$ 101,214	\$ 208,782	\$ 38,295	\$ 251,329	\$ 1,950,725	\$ 318,802	\$ 212,545	\$ 531,347	\$ -	\$ -	
Payroll taxes	102,054	5,037	43,755	-	10,213	23,342	3,592	27,180	215,173	32,197	21,521	53,718	-	268,891	
Employee benefits	145,841	7,715	68,816	-	15,294	27,424	6,640	33,597	303,327	57,542	31,229	88,771	-	394,098	
Total salaries and related expenses	1,157,743	56,678	509,902	-	126,721	259,548	48,527	312,106	2,471,225	408,541	265,295	673,836	-	3,145,061	
Accounting fees	-	-	-	-	-	-	-	-	-	61,189	-	61,189	-	61,189	
Legal fees	168	-	59	-	13	87	40	48	415	40	40	80	-	495	
Medical fees	-	-	-	-	87,725	14,621	-	46,950	149,296	-	-	-	-	149,296	
Consulting fees	4,490	-	1,578	-	1,825	21,495	10,949	2,679	43,016	650	12,376	13,026	-	56,042	
Supplies	55,843	542	21,683	-	3,005	11,600	270	7,370	100,313	9,838	2,043	11,881	-	112,194	
Telephone	10,947	495	4,070	-	2,689	4,310	551	17,122	40,184	6,619	3,071	9,690	-	49,874	
Postage & printing	4,869	127	1,711	-	604	3,049	10,879	2,039	23,278	3,119	19,228	22,347	-	45,625	
Occupancy:															
Fuel and utilities	61,420	-	24,773	-	4,676	26,411	-	36,140	153,420	10,985	2,142	13,127	-	166,547	
Repairs and maintenance	25,958	-	9,120	-	4,634	9,258	-	2,303	51,273	6,757	922	7,679	-	58,952	
Contributed facilities	469	-	-	-	94	94	-	94	751	937	187	1,124	-	1,875	
Rent to Corporate	90,445	-	37,856	-	6,908	42,814	-	6,884	184,907	19,138	3,740	22,878	-	207,785	
Rent and other	27,506	-	9,664	-	348	12,915	-	121,466	171,899	3,087	613	3,700	-	175,599	
Equipment	24,337	1,370	8,940	-	2,779	8,259	70	8,289	54,044	12,701	3,584	16,285	-	70,329	
Transportation	34,713	5,525	12,236	-	1,478	14,039	740	21,120	89,851	3,736	3,580	7,316	-	97,167	
Specific assistance to individuals:															
Food	67,328	-	28,369	-	-	12,174	-	1,793	109,664	-	-	-	-	109,664	
Medical	526	-	185	-	12,905	2,151	-	6,452	22,219	-	-	-	-	22,219	
Contributed medical	-	-	-	-	3,453	38,444	-	1,726	43,623	-	-	-	-	43,623	
Clothing, allowance and other	46,608	5,314	22,556	-	715	155,226	-	19,866	250,285	-	-	-	-	250,285	
Contributed clothing and merchandise	9,287	-	3,428	-	-	287	-	114	13,116	489	7,818	8,307	-	21,423	
Temporary help	192	-	68	-	16	44	-	213	533	24	3	27	-	560	
Other purchased services	21,105	1,207	7,415	-	3,592	8,464	472	7,479	49,734	44,982	3,957	48,939	-	98,673	
Dues, licenses and permits	2,540	74	1,097	-	215	359	32	1,098	5,415	108	275	383	-	5,798	
Subscriptions and publications	1,452	10	510	-	3,218	703	54	1,927	7,874	118	232	350	-	8,224	
Staff recruitment	234	-	82	-	-	-	-	-	316	13	-	13	-	329	
Insurance	25,490	912	11,108	-	2,515	16,460	447	7,198	64,130	5,788	1,583	7,371	-	71,501	
Contributed services	-	-	-	-	58,073	628,779	-	29,037	715,889	-	-	-	-	715,889	
Miscellaneous	914	-	800	-	-	14,664	101	2,186	18,665	3,516	4,101	7,617	37,494	63,776	
Bank charges and fees	3,801	-	1,339	-	-	2,809	217	1,713	9,879	18,562	4,119	22,681	-	32,560	
Interest to Corporate	-	-	-	-	-	-	-	-	-	8,046	-	8,046	-	8,046	
Interest	2,071	-	728	-	-	938	-	830	4,567	-	-	-	-	4,567	
Total functional expenses before depreciation and amortization	1,680,456	72,254	719,277	-	328,201	1,310,002	73,349	666,242	4,849,781	628,983	338,909	967,892	37,494	5,855,167	
Depreciation and amortization	39,851	165	17,478	-	835	5,283	175	13,002	76,789	4,660	1,798	6,458	-	83,247	
Total functional expenses	1,720,307	72,419	736,755	-	329,036	1,315,285	73,524	679,244	4,926,570	633,643	340,707	974,350	37,494	5,938,414	
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	37,494	
Total expenses reported by function on the statement of activities	\$ 1,720,307	\$ 72,419	\$ 736,755	\$ -	\$ 329,036	\$ 1,315,285	\$ 73,524	\$ 679,244	\$ 4,926,570	\$ 633,643	\$ 340,707	\$ 974,350	\$ -	\$ 5,900,920	
														\$ 6,117,055	

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

Covenant House New Orleans

CONSOLIDATED STATEMENTS OF CASH FLOWS
Year ended June 30, 2010, with summarized information
as of June 30, 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (563,422)	\$ (945,429)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Loss on sale of property held for sale	26,263	4,171
Loss on write-off of property, plant and equipment	-	1,818
Net unrealized (gains) losses on investments	(42,810)	58,094
Amortization of loan discount	(1,965)	431
Amortization of deferred revenue	-	(56,530)
Depreciation	83,247	88,555
Contributed property, plant and equipment	(22,641)	(200)
Changes in operating assets and liabilities:		
Contributions receivable	(14,406)	463,751
Grants receivable	71,499	(64,099)
Due to/from affiliate	129,708	(27,743)
Other receivables	(13,527)	19,213
Prepaid expenses	4,396	815
Inventory	3,127	(5,674)
Other assets	1,964	52
Accounts payable, accrued expenses and refundable advances	(135,724)	(31,888)
Net cash used in operating activities	(474,291)	(494,663)
Cash flows from investing activities:		
Proceeds from sale of investments	1,360,577	358,504
Purchases of investments	(1,097,875)	(275,581)
Purchases of land, building and equipment, gross	(65,384)	(21,851)
Disposals of land and buildings	10,000	-
Proceeds from sale of property held for sale	21,613	4,217
Restricted advances from federal awarding agencies/pass through	81,961	170,387
Net cash provided by investing activities	310,892	235,676
Cash flows from financing services:		
Loan from Parent designated for operations	100,001	321,603
Borrowing of debt obligations/proceeds from loans	69,625	39,140
Payment of debt obligations	(9,266)	(38,663)
Net cash provided by financing activities	160,360	322,080
Net change in cash and cash equivalents	(3,039)	63,093
Cash and cash equivalents at beginning of year	99,623	36,530
Cash and cash equivalents at end of year	\$ 96,584	\$ 99,623
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 11,782	\$ 9,299
Contributed property, plant and equipment	\$ 22,641	\$ 200

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

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(with comparative totals for 2009)

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 51,000 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 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.

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.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2010 and 2009

(with comparative totals for 2009)

NOTE B – COMPONENTS OF PROGRAM AND SUPPORTING SERVICES – Continued

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, 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 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. 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, including the Tulane Medical Center's Primary Adult Walk-in and Adolescent drop-in clinics, The Urban League's Head Start Program, Metropolitan Human Service District Addictive Behaviors and Mental Illness Program and Traveler's Aid Services for the indigent.

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 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 expenses exceeded its revenues and contributions in its fiscal year ended June 30, 2010 and its liabilities exceeded its assets as of June 30, 2010 by approximately \$118,000. As discussed in Note J, the Organization has outstanding loans to the Parent of approximately \$559,000 due by June 30, 2011.

Due to the Organization's financial condition as of June 30, 2010, subsequent to year end, management has taken several actions to contribute towards the continuing operations of the Organization through June 30, 2011. If the Organization fails to successfully implement these actions, the consequences could include further curtailment of operations. These actions include reducing salaries and staff, converting full-time

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED June 30, 2010 and 2009

NOTE C – LIQUIDITY – Continued

positions to part-time positions, eliminating some programs, and increasing fundraising efforts. Additionally, the Parent has committed in writing to continued financial support of the Organization that includes extension of the due date of the debt, should the need arise. Furthermore, the Organization received an anonymous unrestricted gift of \$250,000 toward its operations. Management believes that these factors will enable the Organization to continue operations through June 30, 2011.

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 2009

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, 2009 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.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED June 30, 2010 and 2009

NOTE D – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED June 30, 2010 and 2009

NOTE D – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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 of 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, 2010. 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, 2010. 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, 2010. 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.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2010 and 2009

NOTE D – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

See Note H for additional information regarding investments.

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 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, 2010 and 2009

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 \$51.7 million and \$55.9 million for the Parent in the fiscal years ended 2010 and 2009, 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 2010 and 2009, the Organization received contributions from Parent totaling \$2,326,680 and \$1,606,811, respectively.

Contributions received by the Parent and allocated to affiliates, based on the Parent’s policy in effect at the time, approximated \$33.8 million and \$32.7 million in fiscal 2010 and 2009, 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 \$172,000 in 2010 and \$165,000 in 2009 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 \$145,000 and \$15,000 for 2010 and 2009, 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 year 2010. The rent was forgiven by the Parent and subsequently recognized as contributed facilities for fiscal 2009 with an approximated fair value of \$208,000.

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 2010 and 2009.

NOTE G – RESTRICTED CASH

During fiscal year 2010, the Organization received cash advances from a federal agency that required funds be deposited in a separate interest bearing bank account and disbursed as appropriate. In addition, the Organization received restricted funds from a third party whereby the Organization serves as the fiscal agent. The restricted cash balance totaled approximately \$61,000 at June 30, 2010.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2010 and 2009

NOTE H – 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, 2010 and 2009:

	2010	2009
Within one year	\$ 28,746	\$ 17,941
Five years and after	85,000	85,000
	113,746	102,941
Less: Unamortized discount	62,399	66,000
Present value of contributions receivable	\$ 51,347	\$ 36,941

The Organization has been named the beneficiary and owner of a \$10,000 and \$75,000 life insurance policies. The policies are recognized at their fair value (cash surrender value) and are included in contributions receivable in the accompanying consolidated statement of financial position. The amounts have been classified as long-term due to the uncertainty associated with the timing of the receipt of these funds.

Other receivables primarily include White Dove Landscape and Covenant Café, LLC training program sales and/or services, net of allowances for doubtful accounts. The net balance at June 30 totaled approximately \$49,000 and \$36,000 for 2010 and 2009, respectively.

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

	2010	2009
Beginning balance	\$ 9,829	\$ 14,676
Write off of uncollectible receivables	(4,494)	(4,847)
Ending balance	\$ 5,335	\$ 9,829

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2010 and 2009

NOTE I – INVESTMENTS AND OTHER ASSETS

Investments at June 30, 2010 and 2009 consist of:

	Total fair value	
	2010	2009
Money market	\$ 20,631	\$ 18,882
Common stocks	-	181,046
Corporate debt securities	-	64,201
Total investments	\$ 20,631	\$ 264,129
Beneficial interest in assets held by others	\$ 274,667	\$ 251,061

Property held for sale at June 30, 2010 and 2009 consist of:

	2010	2009
Real estate held for sale	\$ -	\$ 25,000
Other assets held for sale	25,391	50,626
Total property held for sale	\$ 25,391	\$ 75,626

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

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2010 and 2009

NOTE I – 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, 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>

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, 2009:

	Level 1	Level 2	Level 3	Total
Common stock	\$ 181,046	\$ -	\$ -	\$ 181,046
Debt securities	64,201	-	-	64,201
Money market funds	<u>18,882</u>	<u>-</u>	<u>-</u>	<u>18,882</u>
	<u><u>\$ 264,129</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 264,129</u></u>
Beneficial interest in assets held by others:				
Greater New Orleans Foundation	\$ -	\$ -	\$ 176,987	\$ 176,987
Jewish New Orleans Foundation	-	-	24,748	24,748
The Catholic Foundation	-	-	24,246	24,246
Baton Rouge Area Foundation	<u>-</u>	<u>-</u>	<u>25,080</u>	<u>25,080</u>
Total beneficial interest in assets held by others	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 251,061</u></u>	<u><u>\$ 251,061</u></u>

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, 2009:

Balance, beginning of year	\$ 306,415
Purchases and sales, net	(3,444)
Realized/unrealized gains	<u>(51,910)</u>
Balance, end of year	<u><u>\$ 251,061</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

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2010 and 2009

NOTE I – INVESTMENTS AND OTHER ASSETS – Continued

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 power, that is, permit each foundation to substitute another beneficiary, if the Organization ceases to exist, or the foundation's governing board votes that support of the Organization is no longer necessary or is inconsistent with the needs of the community. The Organization recognizes the transfer as reciprocal, and therefore not a contribution, but as a beneficial interest in assets held by others and a component of its board designated endowment. Fair values of each fund as of June 30, 2010 and 2009 are as follows:

	2010	2009
Greater New Orleans Foundation	\$ 191,193	\$ 176,987
Jewish Endowment Foundation	27,840	24,748
The Catholic Foundation	27,860	24,246
Baton Rouge Area Foundation	27,774	25,080
	\$ 274,667	\$ 251,061

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. While the Organization has no donor-imposed permanently restricted net assets, the following changes in net assets for its board designated endowment funds for the period ended June 30 are as follows.

Changes in endowment net assets for the fiscal year ended June 30, 2010 and 2009:

	2010		2009	
	Unrestricted	Total	Unrestricted	Total
Net assets, beginning of the year	\$ 251,061	\$ 251,061	\$ 306,415	\$ 306,415
Investment return:				
Investment income	6,195	6,195	6,595	6,595
Net appreciation (realized and unrealized)	27,214	27,214	(51,910)	(51,910)
Total investment return	33,409	33,409	(45,315)	(45,315)
Appropriation of endowment assets for expenditures	(8,240)	(8,240)	(8,480)	(8,480)
Other charges:				
Fees	(1,563)	(1,563)	(1,559)	(1,559)
Net assets, end of year	\$ 274,667	\$ 274,667	\$ 251,061	\$ 251,061

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2010 and 2009

NOTE J – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net, consisted of the following as of June 30:

	2010	2009
Land	\$ 69,829	\$ 4,000
Buildings	5,880	14,880
Building improvements	106,666	106,666
Equipment	1,466,591	1,447,732
Leasehold improvements	381,788	377,092
	2,030,754	1,950,370
Less accumulated depreciation and amortization	(1,670,057)	(1,586,810)
	\$ 360,697	\$ 363,560

NOTE K – DEBT OBLIGATIONS

The purchase of the coffee shop and catering business was made in consideration of the Organization assuming the seller's lease and additionally for the 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, the Organization received full ownership of all items transferred by 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. The promissory note was paid in full during fiscal 2009.

The Organization acquired six (6) lots for its urban farms project, which is a component of the White Dove Landscape training program for at-risk youth. The lots that are slated for plant propagation were purchased for the price of \$44,625 represented by a promissory note payable to the seller in 36 equal monthly installments, bearing 0% interest per annum. The imputed interest on the loan at the time of issuance was estimated at \$2,796, based on a 4.25% interest rate.

The debt service requirements at June 30, 2010 were as follows:

2012	\$ 35,945
	35,945
Less: Unamortized discount on notes payable	1,965
	\$ 33,980

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED June 30, 2010 and 2009

NOTE K – DEBT OBLIGATIONS – Continued

The Organization has promised to repay loans received for its operations that were drawn from the Parent's revolving line of credit with J.P. Morgan Chase. Interest will accrue to the Borrower at the rate then in effect, and as adjusted from time-to-time, by the Bank. The balance at June 30 totaled approximately \$559,000 and \$459,000 for years 2010 and 2009, respectively, and is due June 30, 2011.

In addition, the Organization has a variable rate open-end line of credit agreement with Regions to borrow up to an aggregate amount of \$100,000 secured by the assets of Covenant Café, LLC. Interest is payable at Regions prime rate, plus 1% (4.25% at June 30, 2010). The line of credit expires March 2011. The balance outstanding at June 30, 2010 totaled approximately \$74,000.

NOTE L – TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2010, temporarily restricted net assets of \$77,389 were available subject to donor-imposed restrictions relating to the passage of time and operations of the entity including, but not limited to, the purchase of clothing, the funding of mental health, education, neighborhood revitalization, staff training, child care and the urban farms job training program. Net assets released from restriction during the period, based on the satisfaction of donor-imposed purposes totaled \$35,112. Significant projects include youth educational activities and the Treme Beautification Project.

NOTE M – PENSION PLAN

The Organization participates in a defined benefit pension plan sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Separate participant data and related pension information for the Organization is not available. Effective December 31, 2006, the Parent froze service credits in the Plan. Compensation increases continued to apply within the plan structure for those participants who exceeded certain thresholds of age and years of service to protect the benefits of older and longer tenured employees. Covenant House has further amended the plan effective August 1, 2009 to cease adjustments in the accrued benefit due to salary increases so that no further benefits will accrue under the plan after that date.

Effective January 1, 2007, the Organization adopted a new 403(b) defined contribution pension plan for all employees with one year of service. The Organization matched 50% of employee contributions to the 403(b) Plan up to the first 6.0% of salary. There will be an additional annual employer contribution to the retirement account for all employees. The Organization's contributions will range from 1.0% to 9.0% of salary based on points, provided that employees work 1,000 hours annually. Points equal the sum of age and years of service. The 403(b) Plan will be 100% (cliff vesting) vested after three years of service. Total expense related to the 403(b) plan was approximately \$67,569 for the year ended June 30, 2010. The total accrued payable related to the defined contribution plan was approximately \$113,000 and \$131,000 at June 30, 2010 and 2009, respectively.

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

June 30, 2010 and 2009

NOTE M – PENSION PLAN – Continued

The employer match contribution to the 403(b) plan was suspended for fiscal 2010. As of the report date, no decision was reached on when the employer match portion will be resumed.

The annual employer contribution to the 403(b) plan was not suspended and remains intact.

NOTE N – TAX-EXEMPT STATUS

The Organization is qualified as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) according to an Internal Revenue Service determination letter dated. Accordingly, the Organization is not subject to federal income taxes under Section 501(a) of the Code. As a not-for-profit organization, the Organization 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.

The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions.

Effective July 1, 2009, the Organization adopted new accounting guidance which requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The adoption of this guidance did not have an impact on the Organization’s financial statements, as management believes that there are no uncertain tax positions within its financial statements.

NOTE O – COMMITMENTS AND CONTINGENCIES

The Organization assumed the seller’s lease as a condition of its purchase of the coffee shop and catering business held by Covenant Cafe, LLC. The lease and addendum, dated March 15, 1995, and first amendment, dated June 28, 2002, with East Skelly, LLC, the lessor, is for a term ending December 31, 2012, with renewal options. The Organization also has other operating leases used in the daily operations of business. Rent expense was \$67,800 and \$62,087 for fiscal years ended June 30, 2010 and 2009, respectively. Aggregate future minimum lease payments under these operating leases that have remaining terms in excess of one year as of June 30, 2010 are as follows:

<u>Years ending June 30,</u>	
2011	\$ 67,588
2012	67,207
2013	37,536
2014	1,054
Thereafter	<u>12,000</u>
Total	<u>\$ 185,385</u>

Covenant House New Orleans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2010 and 2009

NOTE P – SUBSEQUENT EVENTS

The Organization evaluated all events or transactions that occurred after June 30, 2010 up through January 27, 2011, the date the consolidated financial statements are available to be issued. During this period, the Organization did not have any material recognizable subsequent events except as noted below.

As of November 1, 2010, the Organization ceased operations of Covenant Café, LLC.