

**CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
COVENANT HOUSE MICHIGAN
JUNE 30, 2013 and 2012**

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
 CONSOLIDATED FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION.....	5
STATEMENTS OF ACTIVITIES	6
STATEMENTS OF FUNCTIONAL EXPENSES	8
STATEMENTS OF CASH FLOWS	10
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	11



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Covenant House Michigan

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687
T 312.856.0200
F 312.565.4719
www.GrantThornton.com

Report on the financial statements

We have audited the accompanying consolidated financial statements of Covenant House Michigan (the “Entity”), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Covenant House Michigan as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Grant Thornton LLP

Chicago, Illinois
November 6, 2013

Covenant House Michigan
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30,

ASSETS	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,309,053	\$ 753,958
Short-term investments	1,760,656	2,356,417
Receivables	1,197,903	943,793
Prepaid expenses	<u>565,828</u>	<u>110,484</u>
Total current assets	5,833,440	4,164,652
LONG-TERM INVESTMENTS	136,507	94,047
PROPERTY AND EQUIPMENT, NET	4,582,886	4,691,978
LONG-TERM DEFERRED RENT	<u>156,965</u>	<u>158,834</u>
TOTAL ASSETS	<u>\$ 10,709,798</u>	<u>\$ 9,109,511</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Lease payable, current portion	\$ 11,421	\$ 11,056
Notes payable, current portion	-	1,398
Unearned revenue	23,375	133,014
Due to Parent	2,107	555
Accounts payable and accrued expenses	<u>589,753</u>	<u>839,060</u>
Total current liabilities	626,656	985,083
LONG-TERM LIABILITIES		
Deferred compensation	278,355	244,785
Lease payable, less current portion	<u>3,049</u>	<u>14,470</u>
Total liabilities	908,060	1,244,338
NET ASSETS		
Unrestricted		
Board appropriated for specific future programs	1,500,000	2,150,000
Undesignated, available for general use	3,560,018	862,492
Investment in property and equipment, net	<u>4,582,886</u>	<u>4,691,978</u>
Total unrestricted	9,642,904	7,704,470
Temporarily restricted	<u>158,834</u>	<u>160,703</u>
Total net assets	<u>9,801,738</u>	<u>7,865,173</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,709,798</u>	<u>\$ 9,109,511</u>

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

Covenant House Michigan
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions and revenue			
Contributions			
Contributions from individuals, foundations and corporations	\$ 1,475,927	\$ -	\$ 1,475,927
Government grants	627,598	-	627,598
Branding dollars from Parent	1,322,000	-	1,322,000
Special events	463,224		
Less costs of direct benefits to donors	<u>(61,859)</u>		
Net revenues from special events	401,365	-	401,365
Contributed services and merchandise	<u>143,451</u>	<u>-</u>	<u>143,451</u>
Total contributions	3,970,341	-	3,970,341
Revenue			
Investment income			
Interest income	31,451	-	31,451
Net realized and unrealized loss in value of investments	(2,145)	-	(2,145)
Management fee income	7,129,632	-	7,129,632
Other revenue	<u>1,472</u>	<u>-</u>	<u>1,472</u>
Total revenue	<u>7,160,410</u>	<u>-</u>	<u>7,160,410</u>
Total contributions and revenue before net assets released from restrictions	11,130,751	-	11,130,751
Net assets released from restrictions	<u>1,869</u>	<u>(1,869)</u>	<u>-</u>
Total contributions and revenue	11,132,620	(1,869)	11,130,751
Expenses			
Program services			
Schools	5,546,295	-	5,546,295
Outreach	306,509	-	306,509
Public education and advocacy	328,401	-	328,401
Shelter and crisis center	1,362,649	-	1,362,649
Rights of passage	<u>1,129,464</u>	<u>-</u>	<u>1,129,464</u>
Total program services	8,673,318	-	8,673,318
Supporting services			
Management and general	332,636	-	332,636
Fundraising	<u>188,232</u>	<u>-</u>	<u>188,232</u>
Total supporting services	<u>520,868</u>	<u>-</u>	<u>520,868</u>
Total expenses	<u>9,194,186</u>	<u>-</u>	<u>9,194,186</u>
INCREASE (DECREASE) IN NET ASSETS	1,938,434	(1,869)	1,936,565
Net assets, beginning of year	<u>7,704,470</u>	<u>160,703</u>	<u>7,865,173</u>
Net assets, end of year	<u>\$ 9,642,904</u>	<u>\$ 158,834</u>	<u>\$ 9,801,738</u>

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

Covenant House Michigan
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions and revenue			
Contributions			
Contributions from individuals, foundations and corporations	\$ 1,383,749	\$ -	\$ 1,383,749
Government grants	642,330	-	642,330
Branding dollars from Parent	1,422,000	-	1,422,000
Special events	193,740		
Less costs of direct benefits to donors	<u>(35,565)</u>		
Net revenues from special events	158,175	-	158,175
Contributed services and merchandise	<u>127,036</u>	<u>-</u>	<u>127,036</u>
Total contributions	3,733,290	-	3,733,290
Revenue			
Investment income			
Interest income	21,190	-	21,190
Net realized and unrealized loss in value of investments	(7,986)	-	(7,986)
Management fee income	7,001,289	-	7,001,289
Other revenue	<u>6,635</u>	<u>-</u>	<u>6,635</u>
Total revenue	<u>7,021,128</u>	<u>-</u>	<u>7,021,128</u>
Total contributions and revenue before net assets released from restrictions	10,754,418	-	10,754,418
Net assets released from restrictions	<u>1,869</u>	<u>(1,869)</u>	<u>-</u>
Total contributions and revenue	10,756,287	(1,869)	10,754,418
Expenses			
Program services			
Schools	6,262,222	-	6,262,222
Outreach	284,312	-	284,312
Public education and advocacy	286,074	-	286,074
Shelter and crisis center	1,393,000	-	1,393,000
Rights of passage	<u>1,165,990</u>	<u>-</u>	<u>1,165,990</u>
Total program services	9,391,598	-	9,391,598
Supporting services			
Management and general	315,308	-	315,308
Fundraising	<u>160,374</u>	<u>-</u>	<u>160,374</u>
Total supporting services	<u>475,682</u>	<u>-</u>	<u>475,682</u>
Total expenses	<u>9,867,280</u>	<u>-</u>	<u>9,867,280</u>
INCREASE (DECREASE) IN NET ASSETS	889,007	(1,869)	887,138
Net assets, beginning of year	<u>6,815,463</u>	<u>162,572</u>	<u>6,978,035</u>
Net assets, end of year	<u>\$ 7,704,470</u>	<u>\$ 160,703</u>	<u>\$ 7,865,173</u>

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

Covenant House Michigan
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2013

	Program services					Supporting services			2013 Total	
	Schools	Outreach	Public education and advocacy	Shelter and crisis center	Rights of passage	Total	Management and general	Fundraising		Total
Salaries and wages	\$ 2,897,778	\$ 170,741	\$ 176,063	\$ 636,460	\$ 569,254	\$ 4,450,296	\$ 180,711	\$ 106,042	\$ 286,753	\$ 4,737,049
Payroll taxes	246,422	15,889	16,368	59,240	52,983	390,902	16,806	9,860	26,666	417,568
Employee benefits	439,152	36,804	37,911	137,213	122,721	773,801	38,927	22,839	61,766	835,567
Total salaries and related expenses	3,583,352	223,434	230,342	832,913	744,958	5,614,999	236,444	138,741	375,185	5,990,184
Accounting fees	13,598	-	-	-	-	13,598	40,754	-	40,754	54,352
Legal fees	118,028	557	1,714	1,178	1,178	122,655	2,142	857	2,999	125,654
Medical fees	46	23	-	58	58	185	46	-	46	231
Consulting fees	528,618	3,063	25,500	13,067	13,067	583,315	13,817	15,000	28,817	612,132
Supplies	227,012	2,092	3,150	11,186	9,213	252,653	3,055	1,299	4,354	257,007
Telephone	20,629	771	1,516	5,079	3,957	31,952	887	646	1,533	33,485
Postage and printing	784	554	28,616	685	685	31,324	374	10,846	11,220	42,544
Occupancy										
Fuel and utilities	224,679	3,304	1,270	55,747	41,545	326,545	635	635	1,270	327,815
Repairs and maintenance	124,030	5,468	15	29,210	24,682	183,405	5,469	8	5,477	188,882
Rent and other	1,251	1,025	833	7,484	6,287	16,880	2,286	417	2,703	19,583
Equipment	52,719	1,197	1,836	11,598	12,347	79,697	3,693	911	4,604	84,301
Travel	19,820	10,890	4,468	18,840	21,286	75,304	3,102	2,486	5,588	80,892
Specific assistance to individuals										
Food	5,586	2,114	-	97,722	66,208	171,630	-	-	-	171,630
Clothing, allowance and other	44,402	13,719	-	9,846	7,586	75,553	-	-	-	75,553
Contributed clothing and merchandise	117	5,776	-	50,377	26,620	82,890	117	-	117	83,007
Temporary help	196	176	-	594	594	1,560	196	-	196	1,756
Other purchased services	165,317	14,686	10,896	70,471	59,297	320,667	11,268	4,629	15,897	336,564
Dues, licenses and permits	194,677	622	1,234	2,191	2,191	200,915	624	1,106	1,730	202,645
Subscriptions and publications	202	62	143	243	243	893	86	75	161	1,054
Staff recruitment	2,119	1,060	-	2,649	2,649	8,477	2,120	-	2,120	10,597
Insurance	45,271	1,140	920	8,289	6,959	62,579	460	460	920	63,499
Contributed services	-	-	-	24,637	16,425	41,062	-	-	-	41,062
Miscellaneous	63,894	1,693	6,414	3,919	3,770	79,690	1,532	3,675	5,207	84,897
Bank charges and fees	13,297	25	3,370	262	262	17,216	155	3,359	3,514	20,730
Total functional expenses before depreciation and amortization	5,449,644	293,451	322,237	1,258,245	1,072,067	8,395,644	329,262	185,150	514,412	8,910,056
Depreciation and amortization	96,651	13,058	6,164	104,404	57,397	277,674	3,374	3,082	6,456	284,130
Total expenses reported by function	\$ 5,546,295	\$ 306,509	\$ 328,401	\$ 1,362,649	\$ 1,129,464	\$ 8,673,318	\$ 332,636	\$ 188,232	\$ 520,868	\$ 9,194,186

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

Covenant House Michigan
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2012

	Program services					Supporting services			2012 Total	
	Schools	Outreach	Public education and advocacy	Shelter and crisis center	Rights of passage	Total	Management and general	Fundraising		Total
Salaries and wages	\$ 3,229,189	\$ 175,760	\$ 149,669	\$ 645,179	\$ 584,596	\$ 4,784,393	\$ 186,411	\$ 84,935	\$ 271,346	\$ 5,055,739
Payroll taxes	264,411	16,104	13,713	58,686	53,135	406,049	17,080	7,782	24,862	430,911
Employee benefits	464,712	29,838	25,408	114,496	104,211	738,665	31,646	14,419	46,065	784,730
Total salaries and related expenses	3,958,312	221,702	188,790	818,361	741,942	5,929,107	235,137	107,136	342,273	6,271,380
Accounting fees	12,940	-	-	-	-	12,940	36,353	-	36,353	49,293
Legal fees	26,939	59	-	148	148	27,294	405	-	405	27,699
Medical fees	-	-	-	1,042	1,067	2,109	-	-	-	2,109
Consulting fees	490,591	1,016	30,645	6,580	6,580	535,412	5,080	21,645	26,725	562,137
Supplies	113,523	1,860	1,710	10,891	10,509	138,493	2,647	1,066	3,713	142,206
Telephone	1,623	793	1,533	4,902	3,881	12,732	892	655	1,547	14,279
Postage and printing	1,422	508	25,985	1,070	656	29,641	512	10,448	10,960	40,601
Occupancy										
Fuel and utilities	207,514	3,247	1,234	53,490	41,413	306,898	617	617	1,234	308,132
Repairs and maintenance	30,757	7,300	20	32,205	32,344	102,626	7,295	11	7,306	109,932
Rent and other	184,921	633	267	7,453	5,733	199,007	2,003	134	2,137	201,144
Equipment	143,716	2,125	3,765	18,083	16,337	184,026	4,734	1,595	6,329	190,355
Travel	16,400	9,945	3,746	25,517	22,331	77,939	3,285	2,087	5,372	83,311
Specific assistance to individuals										
Food	21,546	87	-	96,829	66,256	184,718	-	-	-	184,718
Clothing, allowance and other	127,768	3,377	-	9,924	6,128	147,197	-	-	-	147,197
Contributed clothing and merchandise	-	7,158	-	39,155	19,520	65,833	-	-	-	65,833
Temporary help	211	111	-	22,844	15,231	38,397	210	-	210	38,607
Other purchased services	395,237	8,838	10,657	72,814	61,888	549,434	8,367	4,475	12,842	562,276
Dues, licenses and permits	208,693	358	1,234	1,216	1,216	212,717	421	1,082	1,503	214,220
Subscriptions and publications	119	32	417	64	64	696	60	152	212	908
Staff recruitment	869	434	-	1,087	1,087	3,477	869	-	869	4,346
Insurance	83,230	756	323	8,170	6,147	98,626	161	161	322	98,948
Contributed services	-	-	-	34,982	23,321	58,303	-	-	-	58,303
Miscellaneous	148,884	1,196	5,467	14,552	15,450	185,549	2,096	2,282	4,378	189,927
Bank charges and fees	7,559	81	3,409	492	492	12,033	145	3,392	3,537	15,570
Total functional expenses before depreciation and amortization	6,182,774	271,616	279,202	1,281,871	1,099,741	9,115,204	311,289	156,938	468,227	9,583,431
Depreciation and amortization	79,448	12,696	6,872	111,129	66,249	276,394	4,019	3,436	7,455	283,849
Total expenses reported by function	\$ 6,262,222	\$ 284,312	\$ 286,074	\$ 1,393,000	\$ 1,165,990	\$ 9,391,598	\$ 315,308	\$ 160,374	\$ 475,682	\$ 9,867,280

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

Covenant House Michigan
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Increase in net assets	\$ 1,936,565	\$ 887,138
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net realized and unrealized loss in value of investments	2,145	7,986
Depreciation and amortization	284,130	283,849
Deferred compensation	102,056	170,965
Changes in operating assets and liabilities		
Due to/from Parent	1,552	(11,365)
Receivables	(252,241)	(661,321)
Prepaid expenses	(455,344)	(26,483)
Accounts payable and accrued expenses	(427,432)	322,596
Net cash provided by operating activities	<u>1,191,431</u>	<u>973,365</u>
Cash flows from investing activities		
Purchases of investments	(1,267,278)	(3,198,316)
Proceeds from sale of investments	1,818,434	1,406,610
Purchases of property and equipment	<u>(175,038)</u>	<u>(837,876)</u>
Net cash provided by (used in) investing activities	376,118	(2,629,582)
Cash flows from financing activities		
Payments on notes payable	(1,398)	(4,561)
Payments on capital lease	<u>(11,056)</u>	<u>(10,703)</u>
Net cash used in financing activities	<u>(12,454)</u>	<u>(15,264)</u>
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	1,555,095	(1,671,481)
Cash and cash equivalents, beginning of year	<u>753,958</u>	<u>2,425,439</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,309,053</u></u>	<u><u>\$ 753,958</u></u>
Cash paid for interest	\$ 13,626	\$ 461

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

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE A - ORGANIZATION

Corporate Structure

Covenant House Michigan (“CHM”), a not-for-profit organization, is an operating affiliate of Covenant House (the “Parent”) a New York not-for-profit corporation. CHM provides shelter, food, clothing, counseling, public education and other services to homeless and at-risk youth in the Metropolitan Detroit area. The Parent provides financial and technical support to CHM. The Parent is the sole member of Covenant House International Foundation, a private, not-for-profit agency which, through its affiliates, provided shelter, food, clothing, counseling, medical attention, crisis intervention and other services to approximately 56,000 homeless and at-risk youths during the year ended June 30, 2013.

CHM is affiliated with the following national and international organizations through common control:

Covenant House Alaska	Covenant House Western Avenue
Covenant House California	Covenant House Testamentum
Covenant House Florida	Covenant House Holdings, LLC
Covenant House Georgia	Covenant House Toronto
Covenant House Missouri	Covenant House Vancouver
Covenant House New Jersey	Covenant House International Foundation
Covenant House New Orleans	Asociación La Alianza (Guatemala)
Covenant House New York/Under 21	Casa Alianza de Honduras
Covenant House Pennsylvania/Under 21	Casa Alianza Nicaragua
Covenant House Texas	Casa Alianza Internacional
Covenant House Washington, D.C.	Fundación Casa Alianza México, I.A.P.

CHM is qualified as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “IRC”) and, accordingly, is not subject to federal income taxes under Section 501(a) of the IRC. As a not-for-profit organization recognized as exempt from Federal income taxation, CHM is exempt from State of Michigan income and sales taxes. CHM has been classified as a publicly supported charitable organization under Section 509(a)(1) of the IRC and qualifies for the maximum charitable contribution deduction for donors.

CHM is the sole member of Youth Vision Solutions (“YVS”), a Michigan non-profit corporation formed in fiscal 2010 to manage public school academics pursuant to management agreements with each public school academy’s governing board.

Components of Program and Supporting Services

Shelter and crisis center - The crisis center program offers emergency shelter and housing for up to 45 youths on a short-term basis. The program provides the basic needs such as food, clothing, personal essentials, laundry facilities and transportation. Supportive services include case management, crisis counseling and ongoing counseling.

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2013 and 2012

NOTE A - ORGANIZATION - Continued

Rights of passage - Rights of passage provides transitional home services for up to two years for youths, including individual counseling and help with completing their education and finding jobs and housing.

Public education and advocacy - The public education program informs and educates the public on how to identify potential homeless and at-risk 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.

Outreach - The outreach program is an effort to reach youths who would otherwise not find their way to shelters. The outreach van cruises the city streets, searching for these youths, providing them with food, a trained counselor, referrals to shelters and health services, if needed.

Schools - During fiscal 2006, CHM initiated and oversaw the creation of three public school academies within the Detroit Public School district. Each public school academy is governed by a public board appointed by the academy's authorizing body, the Detroit Public Schools' Board of Education ("DPS Board"). The academies operate pursuant to a charter contract issued by the DPS Board and operate as independent public schools under the state law. The schools are known as Covenant House Academy (the "Academies") East, Southwest and Central. The Academies provides education, for homeless and at-risk children and those who have dropped out of school while in grades nine through twelve, and assists students in earning their high school diplomas.

In February 2010, YVS was established by CHM to manage public school academies that cater to high school age, homeless and at-risk youth by using educational programs and initiatives that are more effective than traditional curricula at reaching this specific population.

Beginning July 1, 2010, YVS became the managing company for the Covenant House Academies. In its role, YVS will provide all labor, material, equipment and supervision required by the schools, subject to the approval by the independent charter school's Board of Directors. As of February 2012, YVS is qualified as a tax-exempt organization described in Section 501(c)(3) of the IRC and, accordingly, is not subject to federal income taxes under Section 501(a) of the IRC.

Management and General

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.

Fundraising

Fundraising services relate to the activities in raising general and specific contributions.

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of CHM and YVS, collectively the “Organization.” All intercompany transactions have been eliminated. These consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 - Consists of resources available for the general support of the Organization’s operations. Unrestricted net assets may be used at the discretion of management and the Board of Directors and amounts appropriated by the Organization’s Board of Directors for specific future programs or property acquisition.

Investment in property and equipment – Consists of the net book value of property and equipment less any related debt obligations. These are unrestricted funds designated by the Board.

Temporarily restricted - Represents amounts restricted by donors and grantors for specific activities of the Organization or to be used at some future date. These contributions are recorded as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, 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 statements of activities as net assets released from restrictions.

Permanently - Consists of funds that are subject to restrictions of gift instruments requiring that the gift be invested in perpetuity and the income be used for specific or general 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 service classifications on the basis of square footage of office space occupied, salaries and other bases as determined by the Organization’s management.

Contributions and Revenue Recognition

Contributions, including unconditional promises to give, are reported in the period in which they are received. Unconditional promises to give payable over more than one year are discounted to reflect the present value of future cash flows at an appropriate risk adjustment rate.

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. The Organization reflects the expiration of the donor-imposed restriction 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 statements of activities as net assets released from restrictions.

Revenues from government grants and contracts are generally recognized as earned, that is, as related costs are incurred under the grant or contract agreement, or recognized as revenue in the period in which services are rendered.

Contributions are recorded net of estimated uncollectible amounts, which are based on historical losses and the economic condition of the donor. Accounts receivable write-offs are recorded when the probability of collection is considered remote based on age from date of promise.

Management fee revenue is reported at the gross amount billed as the principal or primary obligor for the operation of the charter school. Costs of operating the schools include salaries of school staff, facility costs, and other amounts which are recognized on the accrual basis when incurred.

Cash and Cash Equivalents

The Organization considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash on hand is periodically exposed to concentration of credit risk when balances are in excess of federally insured limits of \$250,000. At June 30, 2013 and 2012, cash balances exceeded insured limits by \$1,594,171 and \$128,311, respectively.

Investments

Short-term investments include certificates of deposit with an original maturity in excess of three months and are stated at cost plus accrued interest. Long-term investments include equity securities and are stated at fair value.

Property and Equipment

Property and equipment are recorded at cost if purchased or, if donated, at fair value at the date of the gift, less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from three to thirty-three years. Leasehold improvements are amortized over the lesser of the term of the lease or their estimated useful lives.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributed Services and In-Kind Donations

Contributed services are recognized as revenue if the services create or enhance non-financial assets or require specialized skills, are 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 revenue and are not reported in the accompanying consolidated financial statements. In-kind donations of goods are recorded at fair value as of the date of the donation.

Total revenue from contributed services and merchandise was \$143,451 and \$127,036 for the years ended June 30, 2013 and 2012, respectively. Of these non-monetary transactions, \$102,389 and \$68,733 was recorded as in-kind donations for household supplies received for the programs for the years ended June 30, 2013 and 2012, respectively. For the years ended June 30, 2013 and 2012, \$41,062 and \$58,303, respectively, was recorded as program expense for mental health therapists' and nurse practitioners' contributed services.

Advertising Expense

Advertising expense is recorded in the period in which services were incurred. Advertising expense was \$19,983 and \$25,993 for the years ended June 30, 2013 and 2012, respectively.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C - RELATED-PARTY TRANSACTIONS

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 CHM and other Covenant House affiliates. It also includes a subsidy or contribution from Parent to help support the program activities of CHM. Parent refers to this as “branding dollars” or “contributions received from Parent.” Contributions received from Parent were \$1,322,000 and 1,422,000 for the years ended June 30, 2013 and 2012, respectively.

NOTE D - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles (“GAAP”) define fair value, establish a framework for measuring fair value, establish a fair value hierarchy based on the inputs used to measure fair value and enhance disclosure requirements for fair value measurements. GAAP maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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 fair value 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 the report date. 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 are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but which are traded less frequently and investments that are fairly valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of the report date. 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 Organization. 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 fair value hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

Valuation of Investments

Investments with values that are based on quoted market prices in active markets are classified within Level 1.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. The Organization has not invested in any Level 2 investments.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The Organization has not invested in any Level 3 investments.

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2013 and 2012

NOTE D - FAIR VALUE MEASUREMENTS – Continued

Fair Value of Investments

The following table summarizes investments by levels as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$111,692	\$ -	\$ -	\$111,692
Equities	<u>24,815</u>	<u>-</u>	<u>-</u>	<u>24,815</u>
Total	<u>\$136,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$136,507</u>

The following table summarizes investments by levels as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$33,607	\$ -	\$ -	\$33,607
Bond funds	55,324	-	-	55,324
Equities	<u>5,116</u>	<u>-</u>	<u>-</u>	<u>5,116</u>
Total	<u>\$94,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$94,047</u>

NOTE E - INVESTMENTS

Investments consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Certificates of deposit	\$1,760,656	\$2,356,417
Equities	24,815	5,116
Bond funds	-	55,324
Mutual funds	<u>111,692</u>	<u>33,607</u>
Total	<u>\$1,897,163</u>	<u>\$2,450,464</u>

NOTE F - CONTRIBUTIONS RECEIVABLE

Contributions receivable have been recorded at present value and are included in receivables in the consolidated statements of financial position.

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2013 and 2012

NOTE G - PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Buildings	\$5,433,043	\$5,323,723
Leasehold improvements	55,439	39,189
Site improvements	668,312	652,976
Furniture and equipment	<u>409,954</u>	<u>384,998</u>
	6,566,748	6,400,886
Less accumulated depreciation	<u>1,983,862</u>	<u>1,708,908</u>
Property and equipment, net	<u>\$4,582,886</u>	<u>\$4,691,978</u>

NOTE H - LEASE AGREEMENTS

Operating Leases

The Organization leases certain office equipment and vehicles under non-cancelable leases. The expenses for such leases in fiscal 2013 and 2012 were approximately \$5,100 and \$5,200, respectively. Certain leases provide the option for renewal.

During July 1999, the CHM entered into a dollar-a-year lease for its main campus with the Archdiocese of Detroit for a period of 99 years. The fair value of the property at the time of the lease signing was recorded as temporarily restricted net assets and is released from restriction over the period of the lease. As the asset is amortized over the 99 year life of the lease, \$1,869 of rent expense and amortization is recorded. CHM uses this property for administrative purposes, the crisis center, rights of passage, charter school and future programs.

Future minimum lease payments under non-cancelable leases at June 30, 2013, are as follows:

<u>Years ending June 30,</u>	<u>Total</u>
2014	\$ 5,171
2015	5,171
2016	4,310
2017	1
2018	1
Thereafter	<u>81</u>
	<u>\$14,735</u>

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2013 and 2012

NOTE H - LEASE AGREEMENTS - Continued

CHM subleases a portion of its main campus to Covenant House Academy Central.

CHM entered into a lease with Covenant House Academy East for the building effective July 1, 2010 through June 30, 2015.

During April 2012, CHM purchased a building from the Detroit Public Schools. CHM entered into a lease with Covenant House Academy Southwest for the building effective July 1, 2012 through June 30, 2017.

Rental income received as of June 30:	<u>2013</u>	<u>2012</u>
Covenant House Academy – Central	\$276,622	\$276,622
Covenant House Academy – East	287,700	287,700
Covenant House Academy – Southwest	<u>260,000</u>	<u>-</u>
Total	<u>\$824,322</u>	<u>\$564,322</u>

Rental payments are made by YVS in connection with its management agreement to operate each of the academies. Because YVS reports revenue on a gross basis as a principal or primary obligor, intercompany rental income and expense between CHM and YVS is eliminated upon consolidation.

Capital Leases

CHM has a capital lease agreement for property and equipment, which expires October 2014. Assets held under the capital lease were \$44,032 as of June 30, 2013. Accumulated amortization as of June 30, 2013 was \$27,520. The lease requires a monthly payment of \$977 including interest of 3.25%.

Future minimum lease payments due under non-cancelable leases from lessors at June 30, 2013, are as follows:

<u>Years ending, June 30,</u>	
2014	\$11,722
2015	<u>2,931</u>
Total minimum lease payments	14,653
Less: amount representing interest	<u>183</u>
Total	<u>\$14,470</u>

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2013 and 2012

NOTE I - NET ASSET CLASSIFICATIONS AND RELEASES FROM RESTRICTION

At June 30, 2013 and 2012 temporarily restricted net assets of \$158,834 and \$160,703, respectively, were time restricted. Net assets of \$1,869 were released from restriction by satisfying the restricted purpose for each of the years ended June 30, 2013 and 2012. There are no permanently restricted net assets at June 30, 2013 or 2012.

NOTE J – EMPLOYEE BENEFIT PLANS

Effective January 1, 2007, the Parent and its domestic affiliates adopted a 403(b) savings plan and defined contribution retirement plan. All employees are immediately eligible for the 403(b) savings plan. CHM will add employer contributions to the retirement account for all employees with at least one year of service and who work 1,000 hours in a year. The rate of contribution (percent of compensation) is based upon points. Points equal the sum of each employee's age and years of service. The employer contribution percentage ranges are from 1% to 9% (maximum) based on the point calculations. Employer contributions for the retirement account will be 100% vested upon entering the plan. Total expense related to the retirement plan was approximately \$101,900 and \$106,700 for the years ended June 30, 2013 and 2012, respectively.

During the year ended June 30, 2010, a deferred compensation agreement was entered into with CHM's current Executive Director. Under the agreement, deferred compensation of an applicable dollar amount and certain percentage of the Executive Director's salary will be accrued for the plan through the plan year ending December 31, 2013. For the fiscal years ended June 30, 2013 and 2012, the Organization recorded an expense of \$34,440 and \$33,340, respectively. The accrual as of June 30, 2013 is \$142,460. Long-term investments designated for the deferred compensation plan were \$136,500 for the year ended June 30, 2013.

During the year ended June 30, 2013, a deferred compensation agreement was entered into with YVS's current Chief Executive Officer. Under the agreement, deferred compensation of an applicable dollar amount will be accrued for the plan through the plan year ending December 31, 2014. For the fiscal years ended June 30, 2013 and 2012, the Organization recorded an expense of \$66,756 and \$137,625, respectively. The accrual as of June 30, 2013 is \$204,381. Long-term investments designated for the deferred compensation plan were \$191,000 for the year ended June 30, 2013.

NOTE K - DEBT OBLIGATIONS

CHM maintains a revolving line of credit with a bank, maturing on demand, to borrow up to an aggregate amount of \$250,000. This debt is secured by the assets of the Organization. Interest is payable at the prime rate. There were no borrowings during fiscal 2013 and 2012.

NOTE L – GRANTS AND CONTRACTS

CHM was awarded a cost-reimbursable HUD Community Development Block and Emergency Solutions Grant that is passed through the City of Detroit. The total amount of the grant award is \$156,200 for the period from October 2012 through September 2013. As of June 30, 2013, the Organization has recorded a receivable of \$130,700 from the City of Detroit representing services performed to date under this agreement.

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2013 and 2012

NOTE L – GRANTS AND CONTRACTS – Continued

CHM was awarded a cost-reimbursable HUD Supportive Housing Grant. The total amount of the grant awarded is \$408,056 for the period from March 2013 through February 2014. As of June 30, 2013, the Organization has recorded a receivable of \$126,525 representing services performed to date under this agreement.

CHM was awarded two cost-reimbursable HUD Emergency Solutions Grants that are passed through Wayne County. The total amount of the grants awarded is \$72,000 for the period from October 2012 through May 2014. As of June 30, 2013, the Organization has recorded a receivable of \$8,040 representing services performed to date under this agreement.

CHM was awarded a cost-reimbursable HUD Emergency Solutions Grant that is passed through Michigan State Housing Development Authority. The total amount of the grant awarded is \$10,000 for the period from October 2012 through September 2013. As of June 30, 2013, the Organization has recorded a receivable of \$1,460

In accordance with the terms of certain government grants, the records of CHM are subject to audit after the date of final payment of the contracts. CHM is liable for any disallowed costs; however, management of CHM believes that the amount of costs disallowed, if any, would not be significant.

NOTE M – UNCERTAIN TAX POSITIONS

The Financial Accounting Standards Board issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management believes that there are no material uncertain tax positions that require recognition within its financial statements. The tax years 2009, 2010, 2011, and 2012 are still open to audit for both federal and state purposes.

CHM has received a favorable determination letter from the Internal Revenue Service stating that it is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986 (IRC), except for income taxes pertaining to unrelated business income.

YVS has received a favorable determination letter from the Internal Revenue Service stating that it is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986 (IRC), except for income taxes pertaining to unrelated business income.

NOTE N - SUBSEQUENT EVENTS

The Organization evaluated its June 30, 2013 consolidated financial statements for subsequent events through November 6, 2013, the date the financial statements were available to be issued. The organization is not aware of any subsequent events that require recognition or disclosure in the financial statements.

