

**CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
COVENANT HOUSE MICHIGAN
JUNE 30, 2014 and 2013**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
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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, 2014 and 2013, and the related consolidated statements of activities 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, 2014 and 2013, 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 5, 2014

Covenant House Michigan
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30,

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,202,036	\$ 2,309,053
Short-term investments	1,410,540	1,760,656
Due from Parent	1,466	-
Receivables	1,333,822	1,197,903
Prepaid expenses	219,456	565,828
Total current assets	6,167,320	5,833,440
LONG-TERM INVESTMENTS	-	136,507
PROPERTY AND EQUIPMENT, NET	5,366,450	4,582,886
LONG-TERM DEFERRED RENT	155,096	156,965
TOTAL ASSETS	\$ 11,688,866	\$ 10,709,798

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Lease payable, current portion	\$ 3,049	\$ 11,421
Unearned revenue	49,800	23,375
Due to Parent	-	2,107
Deferred compensation	374,972	-
Accounts payable and accrued expenses	492,774	589,753
Total current liabilities	920,595	626,656
LONG-TERM LIABILITIES		
Deferred compensation	-	278,355
Lease payable, less current portion	-	3,049
Total liabilities	920,595	908,060
NET ASSETS		
Unrestricted		
Board appropriated for specific future programs	1,500,000	1,500,000
Undesignated, available for general use	3,744,856	3,560,018
Investment in property and equipment, net	5,366,450	4,582,886
Total unrestricted	10,611,306	9,642,904
Temporarily restricted	156,965	158,834
Total net assets	10,768,271	9,801,738
TOTAL LIABILITIES AND NET ASSETS	\$ 11,688,866	\$ 10,709,798

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

Covenant House Michigan
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions and revenue			
Contributions			
Contributions from individuals, foundations and corporations	\$ 1,427,995	\$ -	\$ 1,427,995
Government grants	582,469	-	582,469
Branding dollars from Parent	972,000	-	972,000
Special events	255,835	-	-
Less costs of direct benefits to donors	<u>(52,993)</u>	-	-
Net revenues from special events	202,842	-	202,842
Contributed services, merchandise, and public service announcements	<u>235,951</u>	<u>-</u>	<u>235,951</u>
Total contributions	3,421,257	-	3,421,257
Revenue			
Investment income			
Interest income	21,709	-	21,709
Net realized and unrealized gain in value of investments	2,344	-	2,344
Management fee income	8,401,625	-	8,401,625
Other revenue	<u>5,448</u>	<u>-</u>	<u>5,448</u>
Total revenue	<u>8,431,126</u>	<u>-</u>	<u>8,431,126</u>
Total contributions and revenue before net assets released from restrictions	11,852,383	-	11,852,383
Net assets released from restrictions	<u>1,869</u>	<u>(1,869)</u>	<u>-</u>
Total contributions and revenue	11,854,252	(1,869)	11,852,383
Expenses			
Program services			
Shelter and crisis center	1,385,933	-	1,385,933
Rights of passage	1,133,060	-	1,133,060
Outreach	305,904	-	305,904
Schools	7,212,982	-	7,212,982
Public education and advocacy	<u>328,088</u>	<u>-</u>	<u>328,088</u>
Total program services	10,365,967	-	10,365,967
Supporting services			
Management and general	333,783	-	333,783
Fundraising	<u>186,100</u>	<u>-</u>	<u>186,100</u>
Total supporting services	<u>519,883</u>	<u>-</u>	<u>519,883</u>
Total expenses	<u>10,885,850</u>	<u>-</u>	<u>10,885,850</u>
INCREASE (DECREASE) IN NET ASSETS	968,402	(1,869)	966,533
Net assets, beginning of year	<u>9,642,904</u>	<u>158,834</u>	<u>9,801,738</u>
Net assets, end of year	<u>\$ 10,611,306</u>	<u>\$ 156,965</u>	<u>\$ 10,768,271</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			
Shelter and crisis center	1,362,649	-	1,362,649
Rights of passage	1,129,464	-	1,129,464
Outreach	306,509	-	306,509
Schools	5,546,295	-	5,546,295
Public education and advocacy	<u>328,401</u>	<u>-</u>	<u>328,401</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 FUNCTIONAL EXPENSES
Year ended June 30, 2014

	Program services					Supporting services				2014 Total
	Shelter and crisis center	Rights of passage	Outreach	Schools	Public education and advocacy	Total	Management and general	Fundraising	Total	
Salaries and wages	\$ 655,758	\$ 567,672	\$ 177,670	\$ 3,759,025	\$ 164,847	\$ 5,324,972	\$ 178,399	\$ 103,114	\$ 281,513	\$ 5,606,485
Payroll taxes	57,371	49,664	15,544	328,406	14,422	465,407	15,608	9,021	24,629	490,036
Employee benefits	134,381	116,330	36,409	637,953	33,781	958,854	36,558	21,130	57,688	1,016,542
Total salaries and related expenses	847,510	733,666	229,623	4,725,384	213,050	6,749,233	230,565	133,265	363,830	7,113,063
Contributed public service announcements	-	-	-	43,200	32,400	75,600	-	10,800	10,800	86,400
Accounting fees	-	-	-	13,780	-	13,780	41,576	-	41,576	55,356
Legal fees	6,293	5,841	2,244	53,624	5,364	73,366	5,945	2,682	8,627	81,993
Management and other professional fees	24,309	20,527	3,542	598,707	28,830	675,915	14,547	16,665	31,212	707,127
Supplies	26,266	24,135	3,712	205,641	1,470	261,224	5,049	636	5,685	266,909
Telephone	3,549	3,155	779	40,111	1,231	48,825	675	500	1,175	50,000
Postage and printing	707	707	576	18,182	21,311	41,483	452	8,257	8,709	50,192
Occupancy										
Fuel and utilities	55,381	42,792	4,047	274,955	1,302	378,477	651	651	1,302	379,779
Repairs and maintenance	11,542	11,566	3,295	141,858	-	168,261	3,295	-	3,295	171,556
Rent and other	-	-	-	-	467	467	1,869	156	2,025	2,492
Equipment	12,284	13,250	1,632	203,502	1,800	232,468	3,019	799	3,818	236,286
Travel and transportation	15,888	16,238	6,149	16,534	2,298	57,107	2,155	1,393	3,548	60,655
Specific assistance to individuals										
Food	76,211	51,774	212	10,600	-	138,797	-	-	-	138,797
Clothing, allowance and other	12,173	9,835	2,724	123,391	-	148,123	-	-	-	148,123
Contributed clothing and merchandise	37,765	18,784	7,374	-	-	63,923	-	-	-	63,923
Temporary help	4,261	4,217	1,205	1,119	-	10,802	1,248	-	1,248	12,050
Other purchased services	70,356	59,881	14,732	203,030	7,486	355,485	13,182	3,623	16,805	372,290
Dues, licenses and permits	3,707	3,707	1,239	211,759	342	220,754	823	214	1,037	221,791
Subscriptions and publications	471	353	58	47	31	960	26	16	42	1,002
Staff recruitment	4,508	3,945	1,127	-	-	9,580	1,691	-	1,691	11,271
Insurance	23,025	20,424	4,349	62,407	768	110,973	635	384	1,019	111,992
Contributed services	47,678	31,786	-	-	-	79,464	-	-	-	79,464
Miscellaneous	15,937	15,015	2,706	140,048	3,489	177,195	4,163	1,615	5,778	182,973
Bank charges and fees	97	97	5	4,675	2,449	7,323	195	2,444	2,639	9,962
Total functional expenses before depreciation and amortization	1,299,918	1,091,695	291,330	7,092,554	324,088	10,099,585	331,761	184,100	515,861	10,615,446
Depreciation and amortization	86,015	41,365	14,574	120,428	4,000	266,382	2,022	2,000	4,022	270,404
Total expenses reported by function	\$ 1,385,933	\$ 1,133,060	\$ 305,904	\$ 7,212,982	\$ 328,088	\$ 10,365,967	\$ 333,783	\$ 186,100	\$ 519,883	\$ 10,885,850

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
	Shelter and crisis center	Rights of passage	Outreach	Schools	Public education and advocacy	Total	Management and general	Fundraising	Total	
Salaries and wages	\$ 636,460	\$ 569,254	\$ 170,741	\$ 2,897,778	\$ 176,063	\$ 4,450,296	\$ 180,711	\$ 106,042	\$ 286,753	\$ 4,737,049
Payroll taxes	59,240	52,983	15,889	246,422	16,368	390,902	16,806	9,860	26,666	417,568
Employee benefits	137,213	122,721	36,804	439,152	37,911	773,801	38,927	22,839	61,766	835,567
Total salaries and related expenses	832,913	744,958	223,434	3,583,352	230,342	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	1,178	1,178	557	118,028	1,714	122,655	2,142	857	2,999	125,654
Medical fees	58	58	23	46	-	185	46	-	46	231
Management and other professional fees	13,067	13,067	3,063	528,618	25,500	583,315	13,817	15,000	28,817	612,132
Supplies	11,186	9,213	2,092	227,012	3,150	252,653	3,055	1,299	4,354	257,007
Telephone	5,079	3,957	771	20,629	1,516	31,952	887	646	1,533	33,485
Postage and printing	685	685	554	784	28,616	31,324	374	10,846	11,220	42,544
Occupancy										
Fuel and utilities	55,747	41,545	3,304	224,679	1,270	326,545	635	635	1,270	327,815
Repairs and maintenance	29,210	24,682	5,468	124,030	15	183,405	5,469	8	5,477	188,882
Rent and other	7,484	6,287	1,025	1,251	833	16,880	2,286	417	2,703	19,583
Equipment	11,598	12,347	1,197	52,719	1,836	79,697	3,693	911	4,604	84,301
Travel and transportation	18,840	21,286	10,890	19,820	4,468	75,304	3,102	2,486	5,588	80,892
Specific assistance to individuals										
Food	97,722	66,208	2,114	5,586	-	171,630	-	-	-	171,630
Clothing, allowance and other	9,846	7,586	13,719	44,402	-	75,553	-	-	-	75,553
Contributed clothing and merchandise	50,377	26,620	5,776	117	-	82,890	117	-	117	83,007
Temporary help	594	594	176	196	-	1,560	196	-	196	1,756
Other purchased services	70,471	59,297	14,686	165,317	10,896	320,667	11,268	4,629	15,897	336,564
Dues, licenses and permits	2,191	2,191	622	194,677	1,234	200,915	624	1,106	1,730	202,645
Subscriptions and publications	243	243	62	202	143	893	86	75	161	1,054
Staff recruitment	2,649	2,649	1,060	2,119	-	8,477	2,120	-	2,120	10,597
Insurance	8,289	6,959	1,140	45,271	920	62,579	460	460	920	63,499
Contributed services	24,637	16,425	-	-	-	41,062	-	-	-	41,062
Miscellaneous	3,919	3,770	1,693	63,894	6,414	79,690	1,532	3,675	5,207	84,897
Bank charges and fees	262	262	25	13,297	3,370	17,216	155	3,359	3,514	20,730
Total functional expenses before depreciation and amortization	1,258,245	1,072,067	293,451	5,449,644	322,237	8,395,644	329,262	185,150	514,412	8,910,056
Depreciation and amortization	104,404	57,397	13,058	96,651	6,164	277,674	3,374	3,082	6,456	284,130
Total expenses reported by function	\$ 1,362,649	\$ 1,129,464	\$ 306,509	\$ 5,546,295	\$ 328,401	\$ 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 STATEMENTS OF CASH FLOWS
Years ended June 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Increase in net assets	\$ 966,533	\$ 1,936,565
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net realized and unrealized (gain) loss in value of investments	(2,344)	2,145
Unearned revenue	26,425	(109,639)
Depreciation and amortization	270,404	284,130
Deferred compensation	96,617	102,056
Changes in operating assets and liabilities		
Due to/from Parent	(3,573)	1,552
Receivables	(134,050)	(252,241)
Prepaid expenses	346,372	(455,344)
Accounts payable and accrued expenses	<u>(96,979)</u>	<u>(317,793)</u>
Net cash provided by operating activities	1,469,405	1,191,431
Cash flows from investing activities		
Purchases of investments	(906,128)	(1,267,278)
Proceeds from sale of investments	1,395,095	1,818,434
Purchases of property and equipment	<u>(1,053,968)</u>	<u>(175,038)</u>
Net cash (used in) provided by investing activities	(565,001)	376,118
Cash flows from financing activities		
Payments on notes payable		(1,398)
Payments on capital lease	<u>(11,421)</u>	<u>(11,056)</u>
Net cash (used in) financing activities	<u>(11,421)</u>	<u>(12,454)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	892,983	1,555,095
Cash and cash equivalents, beginning of year	<u>2,309,053</u>	<u>753,958</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,202,036</u></u>	<u><u>\$ 2,309,053</u></u>
Cash paid for interest	\$ 4,660	\$ 631

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

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

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 organization. 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 57,000 homeless and at-risk youths during the year ended June 30, 2014.

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 organization formed in fiscal 2010 to manage public school academies pursuant to management agreements with each public school academy’s governing board. YVS manages four alternative public school academies in the Metropolitan Detroit and Grand Rapids areas and provided public education to approximately 1,000 students during the year ended June 30, 2014.

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, 2014 and 2013

NOTE A - ORGANIZATION - Continued

Rights of passage - Rights of passage provides transitional home services for up to 30 youths for up to two years, including individual counseling and help with completing their education and finding jobs and housing.

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 - CHM initiated and oversaw the creation of three public school academies within the Metropolitan Detroit area. Beginning July 1, 2013, the academies are governed by a public board appointed by the authorizing body, Grand Valley State University (“GVSU”). The academies operate pursuant to a charter contract issued by GVSU and operate as independent public schools under the state law. The Academies provide 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.

As of July 1, 2013, the three schools merged and were renamed Covenant House Academy-Detroit (“CHA-Detroit”) and are referred to as Central-, East-, and Southwest-campus. YVS continues to manage CHA-Detroit and in its role, provides all labor, material, equipment and supervision required by the schools, subject to the approval by the independent charter school’s Board of Directors.

During the year ended June 30, 2014, Covenant House Academy-Grand Rapids (“CHA-GR”) opened with a governing public board appointed by the authorizing body, GVSU. CHA-GR operates pursuant to a charter contract issued by GVSU and operates as an independent public school under the state law. YVS was hired by the charter school’s Board of Directors to manage CHA-GR and in its role, provides all labor, material, equipment and supervision required by the schools, subject to approval by the Board.

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.

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.

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.

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.

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.

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 the 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, 2014 and 2013, cash balances exceeded insured limits by \$2,341,230 and \$1,594,171, 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.

Contributed Services, Public Service Announcements 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. Contributed public service announcements are recorded at the fair value of the service or product provided. In-kind donations of goods are recorded at fair value as of the date of the donation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributed Services, Public Service Announcements and In-Kind Donations (Continued)

Total revenue from contributed services, public service announcements, and merchandise was \$235,951 and \$143,451 for the years ended June 30, 2014 and 2013, respectively. Of these non-monetary transactions, \$70,087 and \$102,389 was recorded as in-kind donations for clothing and household supplies received for the programs for the years ended June 30, 2014 and 2013, respectively. For the years ended June 30, 2014 and 2013, \$79,464 and \$41,062, respectively, was recorded as program expense for mental health therapists' and nurse practitioners' contributed services. For the year ended June 30, 2014, \$86,400 was recorded as public service announcements for public education and advocacy.

Advertising Expense

Advertising expense is recorded in the period in which services were incurred. Advertising expense was \$36,400 and \$19,983 for the years ended June 30, 2014 and 2013, 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 \$972,000 and \$1,322,000 for the years ended June 30, 2014 and 2013, 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.

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, 2014 and 2013

NOTE D - FAIR VALUE MEASUREMENTS – Continued

Fair Value of Investments

The following table summarizes investments by levels as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 6,818	\$ -	\$ -	\$ 6,818
Total	<u>\$ 6,818</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,818</u>

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>

NOTE E - INVESTMENTS

Investments consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Certificates of deposit	\$1,410,540	\$1,760,656
Equities	-	24,815
Mutual funds	<u>6,818</u>	<u>111,692</u>
Total	<u>\$1,417,358</u>	<u>\$1,897,163</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, 2014 and 2013

NOTE G - PROPERTY AND EQUIPMENT, NET

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

	<u>2014</u>	<u>2013</u>
Buildings	\$6,149,429	\$5,433,043
Land	216,000	-
Site improvements	843,131	723,751
Furniture and equipment	<u>403,592</u>	<u>409,954</u>
	7,612,152	6,566,748
Less accumulated depreciation	<u>2,245,702</u>	<u>1,983,862</u>
Property and equipment, net	<u>\$5,366,450</u>	<u>\$4,582,886</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 2014 and 2013 were approximately \$9,671 and \$5,100, respectively. Certain leases provide the option for renewal.

During July 1999, 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, 2014, are as follows:

<u>Years ending June 30,</u>	<u>Total</u>
2015	\$ 9,672
2016	8,810
2017	4,501
2018	751
2019	1
Thereafter	<u>80</u>
	<u>\$23,815</u>

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2014 and 2013

NOTE H - LEASE AGREEMENTS - Continued

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

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

CHM entered into a lease with Covenant House Academy-Detroit, Southwest campus for the building effective July 1, 2012 through June 30, 2017.

During July 2103, CHM purchased a building from the Grand Rapids Public Schools. CHM entered into a lease with Covenant House Academy-Grand Rapids for the building effective July 1, 2013 through June 30, 2018.

Rental income received as of June 30:	<u>2014</u>	<u>2013</u>
Covenant House Academy-Detroit,Central	\$276,622	\$276,622
Covenant House Academy-Detroit,East	287,700	287,700
Covenant House Academy-Detroit,Southwest	260,000	260,000
Covenant House Academy-Grand Rapids	<u>125,000</u>	<u>-</u>
Total	<u>\$949,322</u>	<u>\$824,322</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, 2014. Accumulated amortization as of June 30, 2014 was \$38,528. 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, 2014, are as follows:

<u>Years ending, June 30,</u>	
2015	\$3,066
Total minimum lease payments	3,066
Less: amount representing interest	<u>17</u>
Total	<u>\$3,049</u>

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2014 and 2013

NOTE I - NET ASSET CLASSIFICATIONS AND RELEASES FROM RESTRICTION

At June 30, 2014 and 2013 temporarily restricted net assets of \$156,965 and \$158,834 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, 2014 and 2013. There are no permanently restricted net assets at June 30, 2014 or 2013.

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 \$82,187 and \$101,900 for the years ended June 30, 2014 and 2013, respectively.

During the year ended June 30, 2012, 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, 2014 and 2013, the Organization recorded an expense of \$70,969 and \$66,756, respectively. The accrual as of June 30, 2014 is \$374,972. Long-term investments designated for the deferred compensation plan were \$379,000 for the year ended June 30, 2014.

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 2014 and 2013.

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 \$200,000 for the period from October 2013 through September 2014. As of June 30, 2014, the Organization has recorded a receivable of \$152,700 from the City of Detroit representing services performed to date under this agreement.

Covenant House Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
June 30, 2014 and 2013

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 2014 through February 2015. As of June 30, 2014, the Organization has recorded a receivable of \$117,974 representing services performed to date under this agreement.

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 2010, 2011, 2012, and 2013 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, 2014 consolidated financial statements for subsequent events through November 5, 2014, 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.