

**CONSOLIDATED FINANCIAL STATEMENTS  
AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
COVENANT HOUSE MICHIGAN  
JUNE 30, 2011 and 2010**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors  
Covenant House Michigan

We have audited the accompanying consolidated statements of financial position of Covenant House Michigan (the "Organization") as of June 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 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 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 the 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 consolidated financial position of Covenant House Michigan as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Chicago, Illinois  
November 1, 2011

**Covenant House Michigan**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30,**

| ASSETS  | 2011                | 2010                |
|---|---------------------|---------------------|
| <b>CURRENT ASSETS</b>                           |                     |                     |
| Cash and cash equivalents                       | \$ 2,425,439        | \$ 446,953          |
| Short-term investments                          | 603,676             | 1,962,679           |
| Receivables                                     | 280,603             | 258,403             |
| Due from Parent                                 | -                   | 4,087               |
| Prepaid expenses                                | 84,001              | 47,482              |
| Total current assets                            | 3,393,719           | 2,719,604           |
| <b>LONG-TERM INVESTMENTS</b>                    | 63,068              | 27,186              |
| <b>PROPERTY AND EQUIPMENT, NET</b>              | 4,137,951           | 4,275,852           |
| <b>LONG-TERM DEFERRED RENT</b>                  | 160,703             | 162,572             |
| <b>TOTAL ASSETS</b>                             | <u>\$ 7,755,441</u> | <u>\$ 7,185,214</u> |
| <b>LIABILITIES AND NET ASSETS</b>               |                     |                     |
| <b>CURRENT LIABILITIES</b>                      |                     |                     |
| Notes payable, current portion                  | \$ 4,561            | \$ 8,637            |
| Lease payable, current portion                  | 10,703              | -                   |
| Due to Parent                                   | 11,920              | -                   |
| Accounts payable and accrued expenses           | 649,478             | 439,797             |
| Total current liabilities                       | 676,662             | 448,434             |
| <b>LONG-TERM LIABILITIES</b>                    |                     |                     |
| Deferred compensation                           | 73,820              | 42,060              |
| Notes payable, less current portion             | 1,398               | 5,920               |
| Lease payable, less current portion             | 25,526              | -                   |
| Total liabilities                               | 777,406             | 496,414             |
| <b>NET ASSETS</b>                               |                     |                     |
| Unrestricted                                    |                     |                     |
| Board appropriated for specific future programs | 2,150,000           | 1,075,000           |
| Undesignated, available for general use         | 527,512             | 1,113,991           |
| Investment in property and equipment, net       | 4,137,951           | 4,275,852           |
| Total unrestricted                              | 6,815,463           | 6,464,843           |
| Temporarily restricted                          | 162,572             | 223,957             |
| Total net assets                                | 6,978,035           | 6,688,800           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <u>\$ 7,755,441</u> | <u>\$ 7,185,214</u> |

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

**Covenant House Michigan**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2011**

|   | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|---------------------|
| Contributions and revenue   |                     |                                   |                     |
| Contributions   |                     |                                   |                     |
| Contributions from individuals, foundations<br>and corporations                 | \$ 1,071,106        | \$ -                              | \$ 1,071,106        |
| Government grants   | 659,387             | -                                 | 659,387             |
| Branding dollars from Parent  | 1,422,000           | -                                 | 1,422,000           |
| Special events  | 80,308              |                                   |                     |
| Less costs of direct benefits to donors   | <u>(20,883)</u>     |                                   |                     |
| Net revenues from special events  | 59,425              | -                                 | 59,425              |
| Contributed services and merchandise  | <u>130,518</u>      | <u>-</u>                          | <u>130,518</u>      |
| Total contributions   | 3,342,436           | -                                 | 3,342,436           |
| Revenue   |                     |                                   |                     |
| Investment income   |                     |                                   |                     |
| Interest income   | 17,120              | -                                 | 17,120              |
| Net realized and unrealized gain in value of investments                        | 6,516               | -                                 | 6,516               |
| Management fee income   | 6,684,085           | -                                 | 6,684,085           |
| Other revenue   | <u>1,427</u>        | <u>-</u>                          | <u>1,427</u>        |
| Total revenue   | <u>6,709,148</u>    | <u>-</u>                          | <u>6,709,148</u>    |
| Total contributions and revenue before<br>net assets released from restrictions | 10,051,584          | -                                 | 10,051,584          |
| Net assets released from restrictions   | <u>61,385</u>       | <u>(61,385)</u>                   | <u>-</u>            |
| Total contributions and revenue   | 10,112,969          | (61,385)                          | 10,051,584          |
| Expenses  |                     |                                   |                     |
| Program services  |                     |                                   |                     |
| Schools/Community service center  | 6,155,009           | -                                 | 6,155,009           |
| Outreach  | 289,569             | -                                 | 289,569             |
| Public education/advocacy   | 282,300             | -                                 | 282,300             |
| Shelter and crisis center   | 1,406,549           | -                                 | 1,406,549           |
| Rights of passage   | <u>1,142,643</u>    | <u>-</u>                          | <u>1,142,643</u>    |
| Total program services  | 9,276,070           | -                                 | 9,276,070           |
| Supporting services   |                     |                                   |                     |
| Management and general  | 325,996             | -                                 | 325,996             |
| Fundraising   | <u>160,283</u>      | <u>-</u>                          | <u>160,283</u>      |
| Total supporting services   | <u>486,279</u>      | <u>-</u>                          | <u>486,279</u>      |
| Total expenses  | <u>9,762,349</u>    | <u>-</u>                          | <u>9,762,349</u>    |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>  | 350,620             | (61,385)                          | 289,235             |
| Net assets, beginning of year   | <u>6,464,843</u>    | <u>223,957</u>                    | <u>6,688,800</u>    |
| Net assets, end of year   | <u>\$ 6,815,463</u> | <u>\$ 162,572</u>                 | <u>\$ 6,978,035</u> |

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

**Covenant House Michigan**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2010**

|   | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|---------------------|
| Contributions and revenue   |                     |                                   |                     |
| Contributions   |                     |                                   |                     |
| Contributions from individuals, foundations<br>and corporations                       | \$ 967,205          | \$ 300,000                        | \$ 1,267,205        |
| Government grants   | 641,295             | -                                 | 641,295             |
| Branding dollars from Parent  | 1,605,400           | -                                 | 1,605,400           |
| Special events  | 170,938             |                                   |                     |
| Less costs of direct benefits to donors   | <u>(37,163)</u>     |                                   |                     |
| Net revenues from special events  | 133,775             | -                                 | 133,775             |
| Contributed services and merchandise  | <u>125,421</u>      | <u>-</u>                          | <u>125,421</u>      |
| Total contributions   | 3,473,096           | 300,000                           | 3,773,096           |
| Revenue   |                     |                                   |                     |
| Investment income   |                     |                                   |                     |
| Interest income   | 25,643              | -                                 | 25,643              |
| Net realized and unrealized loss in value of investments                              | (1,215)             | -                                 | (1,215)             |
| Rental income   | 223,593             | -                                 | 223,593             |
| Other revenue   | <u>785</u>          | <u>-</u>                          | <u>785</u>          |
| Total revenue   | <u>248,806</u>      | <u>-</u>                          | <u>248,806</u>      |
| Total contributions and other revenue before<br>net assets released from restrictions | 3,721,902           | 300,000                           | 4,021,902           |
| Net assets released from restrictions   | <u>242,353</u>      | <u>(242,353)</u>                  | <u>-</u>            |
| Total contributions and revenue   | 3,964,255           | 57,647                            | 4,021,902           |
| Expenses  |                     |                                   |                     |
| Program services  |                     |                                   |                     |
| Schools/Community service center  | 807,869             | -                                 | 807,869             |
| Outreach  | 297,322             | -                                 | 297,322             |
| Public education/advocacy   | 293,530             | -                                 | 293,530             |
| Shelter and crisis center   | 1,305,032           | -                                 | 1,305,032           |
| Rights of passage   | <u>1,047,845</u>    | <u>-</u>                          | <u>1,047,845</u>    |
| Total program services  | 3,751,598           | -                                 | 3,751,598           |
| Supporting services   |                     |                                   |                     |
| Management and general  | 311,073             | -                                 | 311,073             |
| Fundraising   | <u>171,344</u>      | <u>-</u>                          | <u>171,344</u>      |
| Total supporting services   | <u>482,417</u>      | <u>-</u>                          | <u>482,417</u>      |
| Total expenses  | <u>4,234,015</u>    | <u>-</u>                          | <u>4,234,015</u>    |
| (DECREASE) INCREASE IN NET ASSETS   | (269,760)           | 57,647                            | (212,113)           |
| Net assets, beginning of year   | <u>6,734,603</u>    | <u>166,310</u>                    | <u>6,900,913</u>    |
| Net assets, end of year   | <u>\$ 6,464,843</u> | <u>\$ 223,957</u>                 | <u>\$ 6,688,800</u> |

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

Covenant House Michigan  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2011

|   | Program services                        |                   |                                  |                                 |                      |                     | Supporting services       |                   |                   | 2011<br>Total       |
|---|---|-------------------|----------------------------------|---------------------------------|----------------------|---------------------|---------------------------|-------------------|-------------------|---------------------|
|   | Schools/<br>Community<br>service center | Outreach          | Public<br>education/<br>advocacy | Shelter<br>and crisis<br>center | Rights of<br>passage | Total               | Management<br>and general | Fundraising       | Total             |                     |
| Salaries and wages  | \$ 2,885,506                            | \$ 176,963        | \$ 135,724                       | \$ 665,224                      | \$ 588,450           | \$ 4,451,867        | \$ 184,619                | \$ 76,641         | \$ 261,260        | \$ 4,713,127        |
| Payroll taxes   | 270,345                                 | 16,832            | 12,910                           | 63,274                          | 55,971               | 419,332             | 17,560                    | 7,290             | 24,850            | 444,182             |
| Employee benefits   | 517,573                                 | 31,759            | 24,358                           | 128,509                         | 114,730              | 816,929             | 33,133                    | 13,754            | 46,887            | 863,816             |
| <b>Total salaries and related expenses</b>                                | <b>3,673,424</b>                        | <b>225,554</b>    | <b>172,992</b>                   | <b>857,007</b>                  | <b>759,151</b>       | <b>5,688,128</b>    | <b>235,312</b>            | <b>97,685</b>     | <b>332,997</b>    | <b>6,021,125</b>    |
| Accounting fees   | -                                       | -                 | -                                | -                               | -                    | -                   | 48,827                    | -                 | 48,827            | 48,827              |
| Legal fees  | 57,376                                  | 69                | -                                | 172                             | 172                  | 57,789              | 138                       | -                 | 138               | 57,927              |
| Medical fees  | -                                       | -                 | -                                | -                               | -                    | -                   | -                         | -                 | -                 | -                   |
| Consulting fees   | 449,565                                 | -                 | 39,187                           | -                               | -                    | 488,752             | -                         | 30,188            | 30,188            | 518,940             |
| Supplies  | 260,504                                 | 1,692             | 1,454                            | 10,285                          | 8,242                | 282,177             | 3,307                     | 776               | 4,083             | 286,260             |
| Telephone   | 2,790                                   | 911               | 1,167                            | 6,362                           | 4,911                | 16,141              | 972                       | 534               | 1,506             | 17,647              |
| Postage and printing  | 364                                     | 735               | 22,893                           | 611                             | 766                  | 25,369              | 460                       | 9,675             | 10,135            | 35,504              |
| Occupancy   |   |                   |                                  |                                 |                      |                     |                           |                   |                   |                     |
| Fuel and utilities  | 187,586                                 | 3,146             | 1,230                            | 62,044                          | 50,734               | 304,740             | 615                       | 614               | 1,229             | 305,969             |
| Repairs and maintenance   | 79,356                                  | 5,652             | 61                               | 29,590                          | 25,898               | 140,557             | 5,640                     | 26                | 5,666             | 146,223             |
| Rent and other  | 185,584                                 | 953               | 654                              | 5,815                           | 5,092                | 198,098             | 2,196                     | 327               | 2,523             | 200,621             |
| Equipment   | 26,927                                  | 2,637             | 8,530                            | 19,713                          | 18,694               | 76,501              | 5,216                     | 3,135             | 8,351             | 84,852              |
| Travel  | 5,310                                   | 10,361            | 1,949                            | 20,405                          | 16,008               | 54,033              | 2,571                     | 920               | 3,491             | 57,524              |
| Specific assistance to individuals  |   |                   |                                  |                                 |                      |                     |                           |                   |                   |                     |
| Food  | 123,475                                 | 28                | -                                | 85,172                          | 55,769               | 264,444             | -                         | -                 | -                 | 264,444             |
| Clothing, allowance and other   | 44,573                                  | -                 | -                                | 11,891                          | 5,051                | 61,515              | -                         | -                 | -                 | 61,515              |
| Contributed clothing and merchandise                                      | 2,460                                   | 9,550             | -                                | 38,499                          | 21,830               | 72,339              | 160                       | -                 | 160               | 72,499              |
| Temporary help  | 1,437                                   | 1,156             | -                                | 28,785                          | 12,734               | 44,112              | 1,437                     | -                 | 1,437             | 45,549              |
| Other purchased services  | 345,096                                 | 7,538             | 7,029                            | 69,853                          | 59,193               | 488,709             | 11,158                    | 3,548             | 14,706            | 503,415             |
| Dues, licenses and permits  | 184,763                                 | 740               | 1,235                            | 2,587                           | 2,587                | 191,912             | 746                       | 1,116             | 1,862             | 193,774             |
| Subscriptions and publications  | 151,747                                 | 26                | 74                               | 161                             | 128                  | 152,136             | 55                        | 36                | 91                | 152,227             |
| Staff recruitment   | 1,095                                   | 547               | -                                | 1,369                           | 1,369                | 4,380               | 1,095                     | -                 | 1,095             | 5,475               |
| Insurance   | 90,781                                  | 1,789             | 1,625                            | 13,240                          | 11,614               | 119,049             | 812                       | 812               | 1,624             | 120,673             |
| Contributed services  | -                                       | -                 | -                                | 28,856                          | 12,172               | 41,028              | -                         | -                 | -                 | 41,028              |
| Miscellaneous   | 202,701                                 | 729               | 13,321                           | 4,768                           | 4,953                | 226,472             | 1,143                     | 5,348             | 6,491             | 232,963             |
| Bank charges and fees   | 464                                     | 64                | 2,221                            | 482                             | 482                  | 3,713               | 214                       | 2,204             | 2,418             | 6,131               |
| <b>Total functional expenses before<br/>depreciation and amortization</b> | <b>6,077,378</b>                        | <b>273,877</b>    | <b>275,622</b>                   | <b>1,297,667</b>                | <b>1,077,550</b>     | <b>9,002,094</b>    | <b>322,074</b>            | <b>156,944</b>    | <b>479,018</b>    | <b>9,481,112</b>    |
| Depreciation and amortization   | 77,631                                  | 15,692            | 6,678                            | 108,882                         | 65,093               | 273,976             | 3,922                     | 3,339             | 7,261             | 281,237             |
| <b>Total expenses reported by function</b>                                | <b>\$ 6,155,009</b>                     | <b>\$ 289,569</b> | <b>\$ 282,300</b>                | <b>\$ 1,406,549</b>             | <b>\$ 1,142,643</b>  | <b>\$ 9,276,070</b> | <b>\$ 325,996</b>         | <b>\$ 160,283</b> | <b>\$ 486,279</b> | <b>\$ 9,762,349</b> |

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

Covenant House Michigan  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2010

|   | Program services                        |            |                                  |                                 |                      |              | Supporting services       |             |            | 2010<br>Total |
|---|---|------------|----------------------------------|---------------------------------|----------------------|--------------|---------------------------|-------------|------------|---------------|
|   | Schools/<br>Community<br>service center | Outreach   | Public<br>education/<br>advocacy | Shelter<br>and crisis<br>center | Rights of<br>passage | Total        | Management<br>and general | Fundraising | Total      |               |
| Salaries and wages  | \$ 405,892                              | \$ 179,574 | \$ 123,786                       | \$ 632,086                      | \$ 532,977           | \$ 1,874,315 | \$ 184,288                | \$ 70,696   | \$ 254,984 | \$ 2,129,299  |
| Payroll taxes   | 36,821                                  | 16,470     | 11,353                           | 57,972                          | 48,883               | 171,499      | 16,902                    | 6,484       | 23,386     | 194,885       |
| Employee benefits   | 66,881                                  | 30,339     | 20,386                           | 107,157                         | 90,835               | 315,598      | 30,350                    | 11,643      | 41,993     | 357,591       |
| Total salaries and related expenses                               | 509,594                                 | 226,383    | 155,525                          | 797,215                         | 672,695              | 2,361,412    | 231,540                   | 88,823      | 320,363    | 2,681,775     |
| Accounting fees   | -                                       | -          | -                                | -                               | -                    | -            | 36,646                    | -           | 36,646     | 36,646        |
| Legal fees  | 58,466                                  | 428        | 1,396                            | 894                             | 894                  | 62,078       | 1,204                     | 698         | 1,902      | 63,980        |
| Medical fees  | 54                                      | 27         | -                                | 67                              | 67                   | 215          | 54                        | -           | 54         | 269           |
| Consulting fees   | 49,628                                  | -          | 47,775                           | -                               | -                    | 97,403       | -                         | 39,475      | 39,475     | 136,878       |
| Supplies  | 10,145                                  | 2,088      | 991                              | 13,440                          | 9,078                | 35,742       | 3,625                     | 559         | 4,184      | 39,926        |
| Telephone   | 8,175                                   | 1,250      | 2,025                            | 7,294                           | 5,875                | 24,619       | 1,005                     | 858         | 1,863      | 26,482        |
| Postage and printing  | 538                                     | 152        | 26,038                           | 783                             | 783                  | 28,294       | 218                       | 14,421      | 14,639     | 42,933        |
| Occupancy   |   |            |                                  |                                 |                      |              |                           |             |            |               |
| Fuel and utilities  | 5,089                                   | 3,410      | 1,324                            | 48,630                          | 41,013               | 99,466       | 662                       | 662         | 1,324      | 100,790       |
| Repairs and maintenance   | 21,048                                  | 5,780      | 15                               | 27,571                          | 24,698               | 79,112       | 5,741                     | 8           | 5,749      | 84,861        |
| Rent and other  | 2,156                                   | 754        | 437                              | 6,831                           | 5,866                | 16,044       | 2,087                     | 218         | 2,305      | 18,349        |
| Equipment   | 25,630                                  | 3,578      | 2,726                            | 24,330                          | 26,153               | 82,417       | 4,738                     | 1,406       | 6,144      | 88,561        |
| Travel  | 7,123                                   | 8,747      | 2,967                            | 19,460                          | 13,239               | 51,536       | 2,919                     | 1,523       | 4,442      | 55,978        |
| Specific assistance to individuals                                |   |            |                                  |                                 |                      |              |                           |             |            |               |
| Food  | 1,825                                   | 395        | -                                | 52,711                          | 33,561               | 88,492       | -                         | -           | -          | 88,492        |
| Clothing, allowance and other                                     | 5,851                                   | 2,569      | -                                | 11,597                          | 5,117                | 25,134       | -                         | -           | -          | 25,134        |
| Contributed clothing and merchandise                              | 2,971                                   | 11,885     | -                                | 33,426                          | 25,998               | 74,280       | -                         | -           | -          | 74,280        |
| Temporary help  | 2,757                                   | 1,135      | 1,125                            | 34,003                          | 13,559               | 52,579       | 1,913                     | 562         | 2,475      | 55,054        |
| Other purchased services  | 8,372                                   | 8,722      | 5,989                            | 66,256                          | 55,809               | 145,148      | 10,612                    | 3,082       | 13,694     | 158,842       |
| Dues, licenses and permits  | 1,229                                   | 472        | 1,343                            | 1,612                           | 1,612                | 6,268        | 523                       | 1,134       | 1,657      | 7,925         |
| Subscriptions and publications                                    | 648                                     | 65         | 123                              | 130                             | 130                  | 1,096        | 206                       | 62          | 268        | 1,364         |
| Staff recruitment   | 874                                     | 437        | -                                | 1,093                           | 1,093                | 3,497        | 874                       | -           | 874        | 4,371         |
| Insurance   | 5,185                                   | 1,617      | 1,423                            | 14,686                          | 11,883               | 34,794       | 844                       | 712         | 1,556      | 36,350        |
| Contributed services  | -                                       | -          | -                                | 24,755                          | 25,592               | 50,347       | -                         | -           | -          | 50,347        |
| Miscellaneous   | 19,027                                  | 987        | 33,237                           | 4,767                           | 8,286                | 66,304       | 1,678                     | 11,683      | 13,361     | 79,665        |
| Bank charges and fees   | 370                                     | 31         | 1,844                            | 109                             | 109                  | 2,463        | 79                        | 1,844       | 1,923      | 4,386         |
| Total functional expenses before<br>depreciation and amortization | 746,755                                 | 280,912    | 286,303                          | 1,191,660                       | 983,110              | 3,488,740    | 307,168                   | 167,730     | 474,898    | 3,963,638     |
| Depreciation and amortization                                     | 61,114                                  | 16,410     | 7,227                            | 113,372                         | 64,735               | 262,858      | 3,905                     | 3,614       | 7,519      | 270,377       |
| Total expenses reported by function                               | \$ 807,869                              | \$ 297,322 | \$ 293,530                       | \$ 1,305,032                    | \$ 1,047,845         | \$ 3,751,598 | \$ 311,073                | \$ 171,344  | \$ 482,417 | \$ 4,234,015  |

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

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

|   | <u>2011</u>         | <u>2010</u>       |
|---|---------------------|-------------------|
| Cash flows from operating activities  |                     |                   |
| Increase/(decrease) in net assets   | \$ 289,235          | \$ (212,113)      |
| Adjustments to reconcile increase/(decrease) in net assets to net cash provided by operating activities |                     |                   |
| Net realized and unrealized (gain) loss in value of investments   | (6,516)             | 1,215             |
| Contributions of property and equipment   | (10,240)            | -                 |
| Depreciation and amortization   | 281,237             | 270,377           |
| Deferred compensation   | 31,760              | 42,060            |
| Changes in operating assets and liabilities   |                     |                   |
| Due to/from Parent  | 16,007              | 883               |
| Receivables   | (20,331)            | 90,593            |
| Prepaid expenses  | (36,519)            | (1,303)           |
| Accounts payable and accrued expenses   | 209,681             | 171,669           |
| Net cash provided by operating activities   | <u>754,314</u>      | <u>363,381</u>    |
| Cash flows from investing activities  |                     |                   |
| Purchases of investments  | (1,039,332)         | (1,507,105)       |
| Proceeds from sale of investments   | 2,368,969           | 1,270,067         |
| Purchases of property and equipment   | (89,064)            | (393,911)         |
| Net cash provided by (used in) investing activities   | <u>1,240,573</u>    | <u>(630,949)</u>  |
| Cash flows from financing activities  |                     |                   |
| Proceeds from notes payable   | -                   | 12,581            |
| Payments on notes payable   | (8,598)             | (7,200)           |
| Payments on capital lease   | (7,803)             | -                 |
| Net cash (used in) provided by financing activities   | <u>(16,401)</u>     | <u>5,381</u>      |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | <u>1,978,486</u>    | <u>(262,187)</u>  |
| Cash and cash equivalents, beginning of year  | <u>446,953</u>      | <u>709,140</u>    |
| Cash and cash equivalents, end of year  | <u>\$ 2,425,439</u> | <u>\$ 446,953</u> |

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

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**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 International Foundation, a private, not-for-profit agency which, through its affiliates, provides shelter, food, clothing, counseling, medical attention, crisis intervention and other services to approximately 56,000 homeless and at-risk youths. In addition, the Parent offers a national toll-free crisis intervention hotline.

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

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, a Michigan non-profit corporation formed in fiscal 2010 to manage public school academies pursuant to a Management Agreement with each public school academy’s governing board.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE A - ORGANIZATION - Continued**

*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.

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. Youths are also referred to CHM's community service center where they receive ongoing counseling.

Schools/community service center - 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 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.

In February 2010, Youth Vision Solutions ("YVS") was established by CHM to manage public school academies that cater to high school aged, 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. YVS applied for recognition as a tax-exempt organization as defined by Section 501(c)(3) of the IRC in May 2010. The application is pending.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE A - ORGANIZATION - Continued**

***Components of Program and Supporting Services - Continued***

The community service center program provides comprehensive services to youths who have left CHM's crisis center, and other youths in the community who need support to maintain themselves in stable living situations.

***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.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying consolidated financial statements include the accounts of CHM and YVS for 2011, 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.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

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 recognized as management services are provided by YVS for the charter schools.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Cash and Cash Equivalents*

The Organization considers highly liquid investments purchased with a 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. The Federal Deposit Insurance Corporation (“FDIC”) insures accounts up to a maximum aggregate balance of \$250,000 at June 30, 2011 and 2010. Cash balances exceeded insured limits by \$1,737,735 and \$31,759 at June 30, 2011 and 2010, respectively. At November 1, 2011, cash balances were reduced below the insured limits of \$250,000.

*Investments*

Short-term investments include certificates of deposit with a 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 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 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 \$130,518 and \$125,421 for the years ended June 30, 2011 and 2010, respectively. Of these non-monetary transactions, \$79,250 and \$75,075 was recorded as in-kind donations for household supplies received for the programs for the years ended June 30, 2011 and 2010, respectively. For the year ended June 30, 2011, a vehicle for the programs was contributed with a value of \$10,240. For the years ended June 30, 2011 and 2010, \$41,028 and \$50,347, respectively, was recorded as program expense for mental health therapists’ contributed services.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Advertising Expense*

Advertising expense is recorded in the period in which services were incurred. Advertising expense was \$13,757 and \$1,432 for the years ended June 30, 2011 and 2010, 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.

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**NOTE C - RELATED-PARTY TRANSACTIONS**

Contributions received from Parent include 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. Parent refers to this as “branding dollars” or “contributions received from Parent.” Contributions received from Parent were \$1,422,000 and \$1,605,400 for the years ended June 30, 2011 and 2010, respectively.

Contributions receivable from employees were \$1,758 and \$2,293, for fiscal years 2011 and 2010, respectively.

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**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.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**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.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE D - FAIR VALUE MEASUREMENTS - Continued**

*Valuation of Investments - Continued*

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.

*Fair Value of Investments*

The following table summarizes investments by levels as of June 30, 2011:

|              | <u>Level 1</u>  | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------|-----------------|----------------|----------------|--------------|
| Mutual funds | <u>\$63,068</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>  |

The following table summarizes investments by levels as of June 30, 2010:

|              | <u>Level 1</u>  | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------|-----------------|----------------|----------------|--------------|
| Mutual funds | <u>\$27,186</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>  |

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**NOTE E - INVESTMENTS**

Investments consist of the following at June 30:

|                         | <u>2011</u>      | <u>2010</u>        |
|-------------------------|------------------|--------------------|
| Certificates of deposit | \$603,676        | \$1,962,679        |
| Mutual funds            | <u>63,068</u>    | <u>27,186</u>      |
| Total                   | <u>\$666,744</u> | <u>\$1,989,865</u> |

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE F - CONTRIBUTIONS RECEIVABLE**

Contributions receivable have been recorded at present value and are included in receivables on the statements of financial position. Receivables are \$1,758 and \$93,243 for the years ended June 30, 2011 and 2010, respectively.

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**NOTE G - PROPERTY AND EQUIPMENT, NET**

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

|                               | <u>2011</u>        | <u>2010</u>        |
|-------------------------------|--------------------|--------------------|
| Buildings                     | \$4,514,654        | \$4,514,654        |
| Leasehold improvements        | 28,483             | -                  |
| Site improvements             | 639,876            | 583,215            |
| Furniture and equipment       | 388,168            | 333,974            |
| Construction in progress      | <u>-</u>           | <u>9,000</u>       |
|                               | 5,571,181          | 5,440,843          |
| Less accumulated depreciation | <u>1,433,230</u>   | <u>1,164,991</u>   |
| Property and equipment, net   | <u>\$4,137,951</u> | <u>\$4,275,852</u> |

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**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 2011 and 2010 were approximately \$27,900 and \$32,900, respectively. Certain leases provide the option for renewal.

During July 1999, the Organization 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. The Organization uses this property for administrative purposes, the crisis center, rights of passage, charter school and future programs.

The Organization subleases a portion of its main campus to Covenant House Academy Central. Beginning July 1, 2010 rental payments under the sublease with Covenant House Academy

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE H - LEASE AGREEMENTS - Continued**

Central were paid by YVS. Rental income received from YVS for the sublease was \$299,369 for the year ended June 30, 2011. The intercompany rental income and expense between Covenant House and YVS is eliminated upon consolidation. During fiscal year 2010, White Hat on behalf of Covenant House Academy Central paid rental payments under the sublease. Rental income received from White Hat for the sublease was \$223,593 for the year ended June 30, 2010.

The Organization has a lease with the Archdiocese of Detroit for the Covenant House Academy Southwest campus. The Organization subleases the property to Covenant House Academy Southwest. The current lease expired on June 30, 2011. The Organization pays the Archdiocese of Detroit rent directly and receives reimbursement from YVS on behalf of Covenant House Academy Southwest. The Organization has extended the lease through June 30, 2012.

During June 2010, the Organization purchased a building from the Detroit Public Schools. The Organization entered into a lease with Covenant House Academy East for the building effective July 1, 2010 through June 30, 2015. At June 30, 2011 and 2010, the cost and carrying value of building on lease was \$221,067 and \$231,484, respectively. Beginning July 1, 2010, rental payments for Covenant House Academy East were paid by YVS on behalf of Covenant House Academy East.

Future minimum lease payments under non-cancelable leases at June 30, 2011, are as follows:

| Years ending June 30, | Equipment<br>and vehicles | Main<br>Campus | Southwest<br>Campus | Total     |
|-----------------------|---------------------------|----------------|---------------------|-----------|
| 2012                  | \$3,941                   | \$ 1           | \$162,000           | \$165,942 |
| 2013                  | 688                       | 1              | -                   | 689       |
| 2014                  | -                         | 1              | -                   | 1         |
| 2015                  | -                         | 1              | -                   | 1         |
| 2016                  | -                         | 1              | -                   | 1         |
| Thereafter            | -                         | 83             | -                   | 83        |
|                       | \$4,629                   | \$88           | \$162,000           | \$166,717 |

**Capital Leases**

The Organization has entered into a capital lease agreement for property and equipment, which expires October 2014. Assets held under the capital lease were \$36,229 as of June 30, 2011. Accumulated amortization of the assets as of June 30, 2011 was \$5,504. The lease requires a monthly payment of \$977 including interest of 3.25%.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE H - LEASE AGREEMENTS - Continued**

Future minimum lease payments under the non-cancelable capital lease at June 30, 2011, are as follows:

Years ending June 30,

|                                    |                 |
|------------------------------------|-----------------|
| 2012                               | \$11,722        |
| 2013                               | 11,722          |
| 2014                               | 11,722          |
| 2015                               | <u>2,931</u>    |
| Total minimum lease payments       | 38,097          |
| Less: amount representing interest | <u>1,868</u>    |
| Total                              | <u>\$36,229</u> |

**NOTE I – NET ASSET CLASSIFICATIONS AND RELEASES FROM RESTRICTION**

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

|                                | <u>2011</u>      | <u>2010</u>      |
|--------------------------------|------------------|------------------|
| Construction/repairs of school | \$ -             | \$ 59,516        |
| Time restricted                | <u>162,572</u>   | <u>164,441</u>   |
| Total temporarily restricted   | <u>\$162,572</u> | <u>\$223,957</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by the donors:

|                                       | <u>2011</u>     | <u>2010</u>      |
|---------------------------------------|-----------------|------------------|
| Construction/repairs of school        |                 |                  |
| Restrictions accomplished             | \$59,516        | \$240,484        |
| Time restriction expired              | <u>1,869</u>    | <u>1,869</u>     |
| Total temporary restrictions released | <u>\$61,385</u> | <u>\$242,353</u> |

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**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. The Organization 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 \$110,900 and \$97,800 for the years ended June 30, 2011 and 2010, respectively.

During the year ended June 30, 2010, a deferred compensation agreement was entered into with the Organization'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 year ended June 30, 2011 and 2010, the Organization recorded an expense of \$31,760 and \$42,060, respectively. The accrual as of June 30, 2011 is \$73,820. Long-term investments designated for the deferred compensation plan were \$57,700 for the year ended June 30, 2011.

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**NOTE K- DEBT OBLIGATIONS**

The Organization 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 2011 and 2010.

Other notes payable consist of two equipment loans. The loans mature between 2012 and 2013, with interest rates from zero to 7%.

Principal payments on the notes payable as of June 30, 2011, are as follows:

Years ending June 30,

|       |                |
|-------|----------------|
| 2012  | \$4,561        |
| 2013  | <u>1,398</u>   |
| Total | <u>\$5,959</u> |

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE L - GRANTS AND CONTRACTS**

The Organization was awarded a cost-reimbursable HUD Community Development Block and Emergency Shelter Grant that is passed through the City of Detroit. The total amount of the grant award is \$145,000 for the period from October 2010 through September 2011. As of June 30, 2011, the Organization has recorded a receivable of \$118,662 from the City of Detroit representing services performed to date under this agreement.

The Organization was awarded a cost-reimbursable HUD Supportive Housing Grant. The total amount of the grant awarded is \$400,233 for the period from March 2011 through February 2012. As of June 30, 2011, the Organization has recorded a receivable of \$31,672 representing services performed to date under this agreement.

The Organization was awarded a cost-reimbursable HHS Street Outreach Grant. The total amount of the grant awarded is \$100,000 for the period from October 2010 through September 2011. As of June 30, 2011, the Organization has recorded a receivable of \$30,296 representing services performed to date under this agreement.

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

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**NOTE M – UNCERTAIN TAX POSITIONS**

Accounting standards require disclosure in the financial statements of the impact of uncertain tax positions on the reported tax expense. 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. Tax positions are recognized or derecognized based on a “more likely than not” threshold. This guidance applies to positions taken or expected to be taken in a tax return. The tax years ended 2007, 2008 and 2009 are still open to audit for both federal and state purposes. Management believes that there are no uncertain tax positions within its financial statements.

The Internal Revenue Service (IRS) has determined that CHM has met the conditions described in Section 509(a)(1) of the Internal Revenue Code (the Code). CHM is exempt from income tax under the Code section 501(c)(3).

YVS believes that it has met the condition for treatment as a 501(c)(3). A tax determination letter has yet to be accepted by the IRS.

**Covenant House Michigan**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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**NOTE N - SUBSEQUENT EVENTS**

The Organization evaluated its June 30, 2011 financial statements for subsequent events through November 1, 2011, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.