

# **Covenant House Michigan**

Consolidated Financial Statements

and Supplementary Information  
June 30, 2018

## Independent Auditors' Report

### Board of Directors Covenant House Michigan

We have audited the accompanying consolidated financial statements of Covenant House Michigan (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 consolidated financial position of Covenant House Michigan as of June 30, 2018 and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Covenant House Michigan's June 30, 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent in all material respects, with the audited financial statements from which it has been derived.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and activities appearing on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*PKF O'Connor Davies, LLP*

New York, New York  
November 28, 2018

## Covenant House Michigan

Consolidated Statement of Financial Position  
June 30, 2018  
(with comparative amounts at June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,937,918	\$ 4,007,468
Investments	5,279,123	3,220,554
Receivables	1,079,596	493,816
Due from related parties	1,366,882	1,703,713
Prepaid expenses and other assets	66,139	134,288
Property and equipment, net	<u>5,898,357</u>	<u>5,053,045</u>
	<u>\$ 17,628,015</u>	<u>\$ 14,612,884</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 593,056	\$ 599,329
Deferred revenue	<u>127,500</u>	<u>139,439</u>
Total Liabilities	<u>720,556</u>	<u>738,768</u>
Net Assets		
Unrestricted	9,010,222	7,631,358
Investment in property and equipment	<u>5,898,357</u>	<u>5,053,045</u>
Total Unrestricted	14,908,579	12,684,403
Temporarily restricted	<u>1,998,880</u>	<u>1,189,713</u>
Total Net Assets	<u>16,907,459</u>	<u>13,874,116</u>
	<u>\$ 17,628,015</u>	<u>\$ 14,612,884</u>

See notes to consolidated financial statements

## Covenant House Michigan

Consolidated Statement of Activities  
Year Ended June 30, 2018  
(with summarized totals for year ended June 30, 2017)

	2018			2017 Total
	Unrestricted	Temporarily Restricted	Total	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 2,104,073	\$ 1,893,267	\$ 3,997,340	\$ 2,078,901
Government grants	461,799	-	461,799	680,905
Branding dollars from Parent	762,000	-	762,000	877,000
Grants from Parent related to national sleep out events	183,012	-	183,012	237,292
Special events, net of direct benefits to donors of \$151,073 and \$122,774	342,006	-	342,006	403,415
Contributed services, merchandise, and public service announcements	134,827	-	134,827	221,325
Total Support and Revenue	<u>3,987,717</u>	<u>1,893,267</u>	<u>5,880,984</u>	<u>4,498,838</u>
<b>INVESTMENT AND OTHER INCOME</b>				
Interest income	10,282	6,541	16,823	28,883
Management fee income	8,170,718	-	8,170,718	8,414,286
Other income	284,163	-	284,163	357,029
Total Investment and Other Income	<u>8,465,163</u>	<u>6,541</u>	<u>8,471,704</u>	<u>8,800,198</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	12,452,880	1,899,808	14,352,688	13,299,036
Net assets released from restrictions	<u>1,090,641</u>	<u>(1,090,641)</u>	-	-
Total Support and Revenue and Investment and Other Income	<u>13,543,521</u>	<u>809,167</u>	<u>14,352,688</u>	<u>13,299,036</u>
<b>EXPENSES</b>				
Program Services				
Shelter and crisis care	1,720,687	-	1,720,687	1,608,613
Rights of Passage	1,036,514	-	1,036,514	1,166,317
Outreach	270,455	-	270,455	337,244
Public education and advocacy	162,259	-	162,259	220,399
Schools	7,081,126	-	7,081,126	7,048,542
Total Program Services	<u>10,271,041</u>	-	<u>10,271,041</u>	<u>10,381,115</u>
Supporting Services				
Management and general	718,760	-	718,760	911,535
Fundraising	329,544	-	329,544	311,603
Total Supporting Services	<u>1,048,304</u>	-	<u>1,048,304</u>	<u>1,223,138</u>
Total Expenses	<u>11,319,345</u>	-	<u>11,319,345</u>	<u>11,604,253</u>
Change in Net Assets	2,224,176	809,167	3,033,343	1,694,783
<b>NET ASSETS</b>				
Beginning of year	<u>12,684,403</u>	<u>1,189,713</u>	<u>13,874,116</u>	<u>12,179,333</u>
End of year	<u>\$ 14,908,579</u>	<u>\$ 1,998,880</u>	<u>\$ 16,907,459</u>	<u>\$ 13,874,116</u>

See notes to consolidated financial statements

**Covenant House Michigan**

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2018  
(with summarized totals for year ended June 30, 2017)

	Program Services						Supporting Services			2017 Total Expenses	
	Shelter and Crisis Care	Rights of Passage	Outreach	Public Education and Advocacy	Schools	Total Program Services	Management and General	Fundraising	Cost of Direct Benefits To Donors		
Salaries and wages	\$ 890,693	\$ 530,733	\$ 152,513	\$ 92,599	\$4,374,043	\$ 6,040,581	\$ 365,154	\$ 193,825	\$ -	\$ 6,599,560	\$ 6,596,314
Payroll taxes	67,208	43,855	11,661	6,817	265,358	394,899	26,691	13,956	-	435,546	438,639
Employee benefits	182,611	127,162	35,977	15,893	880,033	1,241,676	61,549	42,022	-	1,345,247	1,436,723
Total Salaries and Related Expenses	1,140,512	701,750	200,151	115,309	5,519,434	7,677,156	453,394	249,803	-	8,380,353	8,471,676
Accounting fees	11,175	8,175	2,250	-	53,875	75,475	11,725	-	-	87,200	119,500
Legal fees	264	529	264	529	20,419	22,005	2,420	1,058	-	25,483	10,631
Medical fees	17,972	13,782	171	-	-	31,925	-	-	-	31,925	46,156
Consulting fees	68,112	40	20	10,880	20	79,072	5,940	23,226	-	108,238	56,470
Supplies	23,670	13,546	1,511	767	163,101	202,595	5,644	2,286	-	210,525	212,817
Telephone	3,283	2,572	765	432	83,031	90,083	4,873	554	-	95,510	45,644
Postage and printing	2,390	63	31	15,935	3,779	22,198	3,684	20,799	-	46,681	44,504
Occupancy:											
Fuel and utilities	48,417	40,130	5,587	816	171,018	265,968	11,267	1,618	-	278,853	279,305
Repairs and maintenance	20,830	16,927	2,986	44	123,589	164,376	5,009	-	-	169,385	145,655
Rent and other	-	-	-	-	-	-	1,869	-	-	1,869	1,869
Equipment	23,700	18,971	1,642	258	8,305	52,876	20,390	1,031	-	74,297	79,157
Travel and transportation	12,488	9,214	6,429	656	89,505	118,292	3,323	1,082	-	122,697	131,346
Specific Assistance to Individuals:											
Food	70,718	45,835	442	-	-	116,995	-	-	-	116,995	129,324
Medical	97	5	-	-	-	102	-	-	-	102	80
Clothing, allowance and other	7,799	5,897	566	-	4,505	18,767	50,000	-	-	68,767	292,027
Contributed clothing and merchandise	48,978	20,119	6,706	-	-	75,803	-	-	-	75,803	123,707
Temporary help	11,647	8,273	485	-	578	20,983	773	-	-	21,756	2,955
Other purchased services	78,354	63,511	30,945	5,682	469,960	648,452	70,116	9,340	151,073	878,981	846,096
Dues, licenses and permits	2,129	2,042	485	190	5,300	10,146	1,314	170	-	11,630	7,412
Subscriptions and publications	82	36	19	294	6	437	219	499	-	1,155	362
Staff recruitment	56	145	22	848	1,299	2,370	2,336	3,367	-	8,073	3,463
Insurance	29,097	22,033	6,263	1,052	89,336	147,781	11,001	1,868	-	160,650	179,610
Contributed services	35,414	23,610	-	-	-	59,024	-	-	-	59,024	97,618
Miscellaneous	2,793	1,133	487	5,804	47,643	57,860	15,804	7,620	-	81,284	51,003
Bank charges and fees	3	-	-	2,348	2,319	4,670	18,034	5,223	-	27,927	18,766
Interest	-	-	-	-	18,297	18,297	-	-	-	18,297	31,265
	1,659,980	1,018,338	268,227	161,844	6,875,319	9,983,708	699,135	329,544	151,073	11,163,460	11,428,418
Depreciation and amortization	60,707	18,176	2,228	415	205,807	287,333	19,625	-	-	306,958	298,609
Total Functional Expenses	1,720,687	1,036,514	270,455	162,259	7,081,126	10,271,041	718,760	329,544	151,073	11,470,418	11,727,027
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	(151,073)	(151,073)	(122,774)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,720,687	\$ 1,036,514	\$ 270,455	\$ 162,259	\$7,081,126	\$10,271,041	\$ 718,760	\$ 329,544	\$ -	\$ 11,319,345	\$11,604,253

See notes to consolidated financial statements

## Covenant House Michigan

### Consolidated Statement of Cash Flows Year Ended June 30, 2018 (with comparative amounts for year ended June 30, 2017)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,033,343	\$ 1,694,783
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	306,958	298,609
Net realized/unrealized gain on investments	(180,128)	(200,601)
Contributions restricted for long-term purposes	(1,893,267)	(993,052)
Donated securities	(896,214)	(64,937)
Net change in operating assets and liabilities		
Receivables	(585,780)	112,402
Prepaid expenses and other assets	68,149	(107,893)
Accounts payable and accrued expenses	(6,273)	(4)
Due from related parties	336,831	(532,331)
Deferred revenue	(11,939)	66,704
Net Cash from Operating Activities	171,680	273,680
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,921,798)	(2,002,855)
Proceeds from sales of donated securities	921,729	62,952
Proceeds from sales of investments	1,017,842	-
Purchase of property and equipment	(1,152,270)	(105,170)
Net Cash from Investing Activities	(2,134,497)	(2,045,073)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash contributions restricted for long-term purposes	1,893,267	993,052
Change in Cash and Cash Equivalents	(69,550)	(778,341)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	4,007,468	4,785,809
End of year	\$ 3,937,918	\$ 4,007,468
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 18,297	\$ 31,265

See notes to consolidated financial statements

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 1. Organization and Nature of Operations

Covenant House Michigan ("CHM"), a not-for-profit organization, is an operating affiliate of Covenant House (the "Parent"), a not-for-profit organization founded in 1968 and incorporated in 1972. The Parent and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical attention, crisis intervention, public education and prevention, and other services that reached approximately 89,000 and 80,000 runaway, homeless and at-risk youths during fiscal 2018 and 2017 (unaudited).

CHM is the sole member of Youth Vision Solutions ("YVS"), a Michigan not-for-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 800 and 750 (unaudited) students during the years ended June 30, 2018 and 2017.

CHM is affiliated with the following additional not-for-profit organizations through common control:

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Illinois
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington D.C.
- Under 21 Boston, Inc.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House New York/Under 21
- Covenant International Foundation
- Covenant House Holdings, LLC
- Rights of Passage, Inc.
- 268 West 44th Corporation

Covenant House is also the sole member of Covenant International Foundation ("CIF"), a not-for-profit corporation, and Covenant House, together with CIF, represent the controlling interest of the following international not-for-profit affiliates:

- Asociación La Alianza (Guatemala)
- Casa Alianza de Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Covenant House Toronto
- Covenant House Vancouver
- Fundación Casa Alianza México, I.A.P.

Covenant House is the founder of Fundación Casa Alianza México, I.A.P.



## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 1. Organization and Nature of Operations (*continued*)

CHM and YVS have been determined to be not-for-profit organizations exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code ("IRC"), except for income taxes pertaining to unrelated business income. CHM and YVS are also exempt from Michigan income and sales taxes. Both have been classified as publicly supported charitable organization under Section 509(a) (1) of the IRC and qualify for the maximum charitable contribution deduction for donors.

#### ***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 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.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 1. Organization and Nature of Operations (*continued*)

#### ***Components of Program and Supporting Services (continued)***

Covenant House Academy-Grand Rapids ("CHA-GR") has a governing public board appointed by 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 of directors.

*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 of the development department in raising general and specific contributions.

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation and Use of Estimates***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

#### ***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of CHM and YVS, collectively the "Organization". All significant intercompany balances and transactions have been eliminated in consolidation.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Net Asset Presentation***

The Organization maintains its net assets under the following two classes:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain time and donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization.

There are no permanently restricted net assets.

#### ***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 and 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 consolidated statement 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.

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.

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

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***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 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.

Total revenue from contributed services, public service announcements, and merchandise was \$134,827 and \$221,325 for the years ended June 30, 2018 and 2017. Of these non-monetary transactions, \$75,803 and \$123,707 was recorded as in-kind donations for clothing and household supplies received for the programs for the years ended June 30, 2018 and 2017. For the years ended June 30, 2018 and 2017, \$59,024 and \$97,618 was recorded as program expense for mental health therapists' and nurse practitioners' contributed services.

#### ***Fundraising***

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

#### ***Cash and Cash Equivalents***

The Organization considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

#### ***Investments***

Short-term investments include certificates of deposit with a maturity in excess of three months at the time of purchase and money market funds are stated at cost plus accrued interest. Long-term investments include mutual funds and exchange traded and closed-end funds and are stated at fair value.

#### ***Fair Value of Financial Instruments***

The Organization follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

## **Covenant House Michigan**

Notes to Consolidated Financial Statements  
June 30, 2018

### **2. Summary of Significant Accounting Policies (*continued*)**

#### ***Investment and Investment Income***

Investments are stated at fair value in the consolidated statement of financial position. Interest, dividends, realized and unrealized gains and losses on the sale of investments are included in the consolidated statement of activities. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

#### ***Functional Allocation of Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

#### ***Impairment of Long-Lived Assets***

Long-lived assets, such as property, plant and equipment are reviewed for impairment when changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including undiscounted cash flow models, quoted fair values and third-party independent appraisals.

#### ***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 forty years. Leasehold improvements are amortized over the lesser of the term of the lease or their estimated useful lives.

#### ***Prior Year Summarized Comparative Information***

Information as of and for the year ended June 30, 2017 is presented for comparative purposes only. Certain activity by net asset classification are not included in these financial statements. Accordingly, such information does not included sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements as of and for the year ended June 30, 2017, from which the summarized comparative information was derived.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 2. Summary of Significant Accounting Policies *(continued)*

#### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising expense was \$38,594 and \$49,243 for the years ended June 30, 2018 and 2017.

#### **Accounting for Uncertainty in Income Taxes**

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

#### **Subsequent Events**

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is November 28, 2018.

### 3. Receivables

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

All government grants receivable as of June 30, 2018 and 2017 are expected to be collected within one year.

Management has determined all receivables to be fully collectible and therefore no allowance has been recorded as of June 30, 2018 and 2017.

### 4. Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Buildings	\$ 6,149,429	\$ 6,149,429
Site improvements	1,054,509	1,001,705
Furniture and equipment	653,709	628,639
Vehicles	21,165	-
	<u>7,878,812</u>	<u>7,779,773</u>
Accumulated depreciation and amortization	<u>(3,354,856)</u>	<u>(3,047,898)</u>
	4,523,956	4,731,875
Construction-in-progress	1,158,401	105,170
Land	216,000	216,000
	<u>\$ 5,898,357</u>	<u>\$ 5,053,045</u>

## Covenant House Michigan

### Notes to Consolidated Financial Statements June 30, 2018

#### 4. Property and Equipment (*continued*)

Depreciation and amortization expense was \$306,958 and \$298,609 for the years ended June 30, 2018 and 2017.

#### 5. Investments

Investments at June 30, 2018 and 2017 consist of certificates of deposit and money market funds at cost and mutual funds and exchange traded and closed-end funds which are measured at fair value on a recurring basis and are classified with Level 1 inputs using the fair value hierarchy as follows:

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 3,435,172	\$ 1,652,503
Exchange traded and closed-end funds	904,685	1,487,082
Money market funds	939,266	-
Certificates of deposit	-	80,969
	<u>\$ 5,279,123</u>	<u>\$ 3,220,554</u>

The components of other income consist of the following for the years ended June 30,

	<u>2018</u>	<u>2017</u>
Realized and unrealized gains on investments	\$ 180,128	\$ 200,601
Act 18 interdistrict revenue	-	50,366
Rent revenue	26,380	4,875
Other income	77,655	101,187
	<u>\$ 284,163</u>	<u>\$ 357,029</u>

#### 6. Commitments and Contingencies

##### ***Operating Leases***

The Organization has entered into various non-cancelable operating leases for office equipment which expire at various dates through October 2022. Rental expense under all operating leases amounted to \$61,861 and \$50,975 for the years ended June 30, 2018 and 2017.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 6. Commitments and Contingencies *(continued)*

#### ***Operating Leases (continued)***

Future minimum lease payments under non-cancelable leases at June 30, 2018, are as follow for the years ending June 30:

2019	\$ 18,891
2020	13,726
2021	13,726
2022	13,726
2023	<u>3,431</u>
	<u>\$ 63,500</u>

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.

CHM subleases a portion of its main campus to CHA-Detroit for its Central Campus. CHM entered into a lease with CHA-Detroit, East Campus for a building effective February 3, 2015 through June 30, 2020.

CHM also entered into a lease with CHA-Detroit for its Southwest Campus for a building effective February 3, 2015 through June 30, 2020.

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

Since YVS reports revenue on a gross basis as they receive state aid payments from the Michigan Department of Education, they assume the obligation for payment of the lease obligation on behalf of the Academies. Intercompany rental income and expense between CHM and YVS is eliminated upon consolidation.

#### ***Government Grants***

In accordance with the terms of certain government grants, the records of the Organization are subject to audit for varying periods after the date of final payment of the grants. The Organization is liable for any disallowed costs; however, management believes that the amount of disallowed costs, if any, would not be significant. Government grants totaled \$461,799 and \$680,905 for years ended June 30, 2018 and 2017.



## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 6. Commitments and Contingencies (*continued*)

#### *Litigation and General Liability*

The Organization is subject to various claims and lawsuits that may arise in the ordinary course of business. The Organization also maintains adequate insurance coverage to shield it from inherent risks associated with the performance of its mission.

### 7. Net Asset Classifications and Releases from Restriction

At June 30, 2018 and 2017 temporarily restricted net assets of \$149,489 and \$151,358 were time restricted. Additionally, at June 30, 2018 and 2017, there were temporarily restricted net assets in the amount of \$1,849,391 and \$1,038,355 for the purpose of constructing a new crisis center. At June 30, 2018, \$1,165,391 is included in cash and cash equivalents and \$684,000 is included in receivables. At June 30, 2017, \$1,038,355 was included in cash and cash equivalents. Net assets of \$1,090,641 and \$1,869 were released from restriction by satisfying the restricted purpose for each of the years ended June 30, 2018 and 2017.

### 8. Related-Party Transactions

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of the affiliates. Contributions and promises to give totaled approximately \$64.0 and \$66.0 million for the Parent during the years ended June 30, 2018 and 2017. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations plus a Parent subsidy and appropriates funds classified as "Branding Dollars" or "Contributions Received from Parent" to each Covenant House affiliate. Total funds allocated to affiliates, based on the Parent's policy, approximated \$35.0 and \$36.0 million for the years ended June 30, 2018 and 2017. In fiscal 2018 and 2017, the Organization received \$762,000 and \$877,000 in contributions from the Parent. Additionally, in fiscal 2018 and 2017, the Organization received \$183,012 and \$237,292 from the Parent relating to national sleep out events.

At June 30, 2018 and 2017, the Organization had receivables from related parties amounting to \$1,366,882 and \$1,703,713 relating to management fees.

### 9. Employee Benefit Plans

The Parent adopted a defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees are immediately eligible to enter the 403(b) plan. CHM adds employer contributions to the retirement account for all employees who work 1,000 hours in a year. The rate of contribution (percent of compensation) is based upon points. Points equal the sum of age and years of service. The employer contribution percentage ranges are from 1.0% to 9.0% based on points. Employer contributions for the savings and retirement account will be 100% vested after three years of service. CHM's expense related

## Covenant House Michigan

### Notes to Consolidated Financial Statements June 30, 2018

#### 9. Employee Benefit Plans (*continued*)

to the 403(b) plan was \$128,691 and \$100,008 for the years ended June 30, 2018 and 2017.

The Organization participates in a noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Effective August 1, 2009, the Board of Directors of the Parent approved to freeze the future benefit accruals of all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent. Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. In 2018 and 2017, the Organization contributed \$12,908 and \$34,000 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expenses.

#### 10. Grants and Contracts

CHM was awarded a cost-reimbursable City of Detroit Block Grant. As of June 30, 2018 and 2017, the Organization has recorded a receivable of \$61,304 and \$99,931 representing services performed under this award.

CHM was awarded a cost-reimbursable HUD Community Development Block and Emergency Solutions Grant that is passed through the City of Detroit. As of June 30, 2018 and 2017, the Organization has recorded a receivable of \$117,494 and \$116,967 from the City of Detroit representing services performed under this award.

CHM was awarded a cost-reimbursable HUD Supportive Housing Grant. As of June 30, 2018 and 2017, the Organization has recorded a receivable of \$0 and \$13,530 representing services performed under this award.

CHM was awarded a cost-reimbursable Salvation Army Grant. As of June 30, 2018 and 2017 the Organization has recorded a receivable of \$34,256 and \$0 representing services performed under this award.

#### 11. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of investments, cash and cash equivalents and receivables. Investments and cash and cash equivalents are managed within guidelines established by the Board of Directors. As of June 30, 2018, all investments were maintained by large financial institutions. The Organization maintains its cash with established commercial banks.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2018

### 11. Concentration of Credit Risk (*continued*)

At times, the cash balances exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents. Concentrations of credit risk with respect to receivables are limited due to the fact that receivables are due from a number of donors and grant agencies.

\* \* \* \* \*

**Covenant House Michigan**

Supplementary Information

June 30, 2018

## Covenant House Michigan

### Consolidating Schedule of Financial Position (with summarized totals at June 30, 2017)

	June 30, 2018			Total	2017 Total
	CHM	YVS	Eliminations		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,146,926	\$ 1,790,992	\$ -	\$ 3,937,918	\$ 4,007,468
Investments	5,279,123	-	-	5,279,123	3,220,554
Receivables	1,051,543	28,053	-	1,079,596	493,816
Due from related parties	88,759	1,366,882	(88,759)	1,366,882	1,703,713
Prepaid expenses and other assets	18,185	47,954	-	66,139	134,288
Property and equipment, net	<u>5,691,588</u>	<u>206,769</u>	<u>-</u>	<u>5,898,357</u>	<u>5,053,045</u>
	<u>\$ 14,276,124</u>	<u>\$ 3,440,650</u>	<u>\$ (88,759)</u>	<u>\$ 17,628,015</u>	<u>\$ 14,612,884</u>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities					
Accounts payable and accrued expenses	\$ 326,398	\$ 355,417	\$ (88,759)	\$ 593,056	\$ 599,329
Deferred revenue	<u>127,500</u>	<u>-</u>	<u>-</u>	<u>127,500</u>	<u>139,439</u>
Total Liabilities	<u>453,898</u>	<u>355,417</u>	<u>(88,759)</u>	<u>720,556</u>	<u>738,768</u>
Net Assets					
Unrestricted	6,131,758	2,878,464	-	9,010,222	7,631,358
Investment in property and equipment	<u>5,691,588</u>	<u>206,769</u>	<u>-</u>	<u>5,898,357</u>	<u>5,053,045</u>
Total Unrestricted	11,823,346	3,085,233	-	14,908,579	12,684,403
Temporarily restricted	<u>1,998,880</u>	<u>-</u>	<u>-</u>	<u>1,998,880</u>	<u>1,189,713</u>
Total Net Assets	<u>13,822,226</u>	<u>3,085,233</u>	<u>-</u>	<u>16,907,459</u>	<u>13,874,116</u>
	<u>\$ 14,276,124</u>	<u>\$ 3,440,650</u>	<u>\$ (88,759)</u>	<u>\$ 17,628,015</u>	<u>\$ 14,612,884</u>

**Covenant House Michigan**

Consolidating Schedule of Activities  
(with summarized totals for year ended June 30, 2017)

	Year Ended June 30, 2018						2017 Total
	CHM		YVS		Eliminations	Total	
	Unrestricted	Temporarily Restricted	Unrestricted	Sub-total			
<b>SUPPORT AND REVENUE</b>							
Contributions	\$ 2,104,073	\$ 1,893,267	\$ -	\$ 3,997,340	\$ -	\$ 3,997,340	\$ 2,078,901
Government grants	461,799	-	-	461,799	-	461,799	680,905
Branding dollars from Parent	762,000	-	-	762,000	-	762,000	877,000
Grants from Parent related to national sleep out event	183,012	-	-	183,012	-	183,012	237,292
Special events, net	342,006	-	-	342,006	-	342,006	403,415
Contributed services, merchandise, and public service announcements	134,827	-	-	134,827	-	134,827	221,325
Total Support and Revenue	<u>3,987,717</u>	<u>1,893,267</u>	<u>-</u>	<u>5,880,984</u>	<u>-</u>	<u>5,880,984</u>	<u>4,498,838</u>
<b>INVESTMENT AND OTHER INCOME</b>							
Interest income	7,470	6,541	2,812	16,823	-	16,823	28,883
Management fee income	-	-	8,170,718	8,170,718	-	8,170,718	8,414,286
Other income	1,128,394	-	89,517	1,217,911	(933,748)	284,163	357,029
Total Investment and Other Income	<u>1,135,864</u>	<u>6,541</u>	<u>8,263,047</u>	<u>9,405,452</u>	<u>(933,748)</u>	<u>8,471,704</u>	<u>8,800,198</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	5,123,581	1,899,808	8,263,047	15,286,436	(933,748)	14,352,688	13,299,036
Net assets released from restrictions	<u>1,090,641</u>	<u>(1,090,641)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>6,214,222</u>	<u>809,167</u>	<u>8,263,047</u>	<u>15,286,436</u>	<u>(933,748)</u>	<u>14,352,688</u>	<u>13,299,036</u>
<b>EXPENSES</b>							
Program Services							
Shelter and crisis care	1,720,687	-	-	1,720,687	-	1,720,687	1,608,613
Rights of Passage	1,036,514	-	-	1,036,514	-	1,036,514	1,166,317
Outreach	270,455	-	-	270,455	-	270,455	337,244
Public education and advocacy	162,259	-	-	162,259	-	162,259	220,399
Schools	212,150	-	7,802,724	8,014,874	(933,748)	7,081,126	7,048,542
Total Program Services	<u>3,402,065</u>	<u>-</u>	<u>7,802,724</u>	<u>11,204,789</u>	<u>(933,748)</u>	<u>10,271,041</u>	<u>10,381,115</u>
Supporting Services							
Management and general	718,760	-	-	718,760	-	718,760	911,535
Fundraising	329,544	-	-	329,544	-	329,544	311,603
Total Supporting Services	<u>1,048,304</u>	<u>-</u>	<u>-</u>	<u>1,048,304</u>	<u>-</u>	<u>1,048,304</u>	<u>1,223,138</u>
Total Expenses	<u>4,450,369</u>	<u>-</u>	<u>7,802,724</u>	<u>12,253,093</u>	<u>(933,748)</u>	<u>11,319,345</u>	<u>11,604,253</u>
Change in Net Assets	1,763,853	809,167	460,323	3,033,343	-	3,033,343	1,694,783
<b>NET ASSETS</b>							
Beginning of year	<u>10,059,493</u>	<u>1,189,713</u>	<u>2,624,910</u>	<u>13,874,116</u>	<u>-</u>	<u>13,874,116</u>	<u>12,179,333</u>
End of year	<u>\$ 11,823,346</u>	<u>\$ 1,998,880</u>	<u>\$ 3,085,233</u>	<u>\$ 16,907,459</u>	<u>\$ -</u>	<u>\$ 16,907,459</u>	<u>\$ 13,874,116</u>

See independent auditors' report