

# **Covenant House Michigan**

Consolidated Financial Statements

and Supplementary Information  
June 30, 2019

## 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, 2019, 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.

**Board of Directors  
Covenant House Michigan**

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***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, 2019 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.

***Change in Accounting Principle***

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Covenant House Michigan adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

***Report on Summarized Comparative Information***

We have previously audited Covenant House Michigan's June 30, 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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*

December 6, 2019

## Covenant House Michigan

Consolidated Statement of Financial Position  
June 30, 2019  
(with comparative amounts at June 30, 2018)

	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,461,565	\$ 3,937,918
Investments	4,611,955	5,279,123
Receivables	758,567	1,079,596
Due from related parties	1,801,501	1,366,882
Prepaid expenses and other assets	57,973	66,139
Property and equipment, net	8,619,659	5,898,357
	\$ 18,311,220	\$ 17,628,015
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 606,709	\$ 593,056
Deferred revenue	329,653	127,500
Total Liabilities	936,362	720,556
Net Assets		
Without donor restrictions	8,007,579	9,010,222
Investment in property and equipment	8,619,659	5,898,357
Total Without Donor Restrictions	16,627,238	14,908,579
With donor restrictions	747,620	1,998,880
Total Net Assets	17,374,858	16,907,459
	\$ 18,311,220	\$ 17,628,015

See notes to consolidated financial statements

**Covenant House Michigan**

Consolidated Statement of Activities  
Year Ended June 30, 2019  
(with summarized totals for year ended June 30, 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,835,712	\$ 600,000	\$ 2,435,712	\$ 3,997,340
Government grants	714,974	-	714,974	461,799
Branding dollars from Parent	673,000	-	673,000	762,000
Grants from Parent related to national sleep out events	157,506	-	157,506	183,012
Special events, net of direct benefits to donors of \$157,564 and \$151,073	240,271	-	240,271	342,006
Contributed services, merchandise, and public service announcements	88,466	-	88,466	134,827
Total Support and Revenue	<u>3,709,929</u>	<u>600,000</u>	<u>4,309,929</u>	<u>5,880,984</u>
<b>INVESTMENT AND OTHER INCOME</b>				
Interest income	11,117	-	11,117	16,823
Management fee income	8,562,389	-	8,562,389	8,170,718
Other income	381,319	-	381,319	284,163
Total Investment and Other Income	<u>8,954,825</u>	<u>-</u>	<u>8,954,825</u>	<u>8,471,704</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	12,664,754	600,000	13,264,754	14,352,688
Net assets released from restrictions	<u>1,851,260</u>	<u>(1,851,260)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>14,516,014</u>	<u>(1,251,260)</u>	<u>13,264,754</u>	<u>14,352,688</u>
<b>EXPENSES</b>				
Program Services				
Shelter and crisis care	2,026,790	-	2,026,790	1,720,687
Rights of Passage	1,030,003	-	1,030,003	1,036,514
Outreach	315,950	-	315,950	270,455
Medical	103,108	-	103,108	-
Public education and advocacy	159,106	-	159,106	162,259
Schools	7,790,339	-	7,790,339	7,081,126
Total Program Services	<u>11,425,296</u>	<u>-</u>	<u>11,425,296</u>	<u>10,271,041</u>
Supporting Services				
Management and general	902,353	-	902,353	718,760
Fundraising	469,706	-	469,706	329,544
Total Supporting Services	<u>1,372,059</u>	<u>-</u>	<u>1,372,059</u>	<u>1,048,304</u>
Total Expenses	<u>12,797,355</u>	<u>-</u>	<u>12,797,355</u>	<u>11,319,345</u>
Change in Net Assets	1,718,659	(1,251,260)	467,399	3,033,343
<b>NET ASSETS</b>				
Beginning of year	<u>14,908,579</u>	<u>1,998,880</u>	<u>16,907,459</u>	<u>13,874,116</u>
End of year	<u>\$ 16,627,238</u>	<u>\$ 747,620</u>	<u>\$ 17,374,858</u>	<u>\$ 16,907,459</u>

See notes to consolidated financial statements

**Covenant House Michigan**

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2019  
(with summarized totals for year ended June 30, 2018)

	Program Services						Supporting Services			2018 Total Expenses		
	Shelter and Crisis Care	Rights of Passage	Outreach	Medical	Public Education and Advocacy	Schools	Total Program Services	Management and General	Fundraising		Cost of Direct Benefits To Donors	Total
Salaries and wages	\$ 1,113,754	\$ 557,301	\$ 212,957	\$ 51,897	\$ 95,175	\$ 4,629,067	\$ 6,660,151	\$ 390,480	\$ 297,346	\$ -	\$ 7,347,977	\$ 6,599,560
Payroll taxes	84,876	45,952	14,296	3,193	7,549	272,523	428,389	28,691	24,238	-	481,318	435,546
Employee benefits	203,088	135,491	33,699	8,918	17,370	1,105,685	1,504,251	153,969	60,055	-	1,718,275	1,345,247
Total Salaries and Related Expenses	1,401,718	738,744	260,952	64,008	120,094	6,007,275	8,592,791	573,140	381,639	-	9,547,570	8,380,353
Accounting fees	12,615	10,295	2,690	-	-	17,885	43,485	8,135	-	-	51,620	87,200
Legal fees	-	491	-	-	-	49,792	50,283	365	-	-	50,648	25,483
Medical fees	1,139	770	-	-	-	-	1,909	-	-	-	1,909	31,925
Consulting fees	33,212	-	-	-	6,905	-	40,117	1,873	7,145	-	49,135	108,238
Supplies	21,590	13,053	3,236	2,283	398	384,293	424,853	14,783	2,411	-	442,047	210,525
Telephone	11,000	3,636	1,143	932	139	69,175	86,025	5,627	503	-	92,155	95,510
Postage and printing	1,224	22	17	16	14,923	4,792	20,994	3,483	37,739	-	62,216	46,681
Occupancy:												
Fuel and utilities	63,948	31,807	2,489	1,115	954	196,621	296,934	8,561	3,365	-	308,860	278,853
Repairs and maintenance	14,328	4,591	458	3,113	14	91,711	114,215	3,081	58	-	117,354	169,385
Rent and other	-	-	-	-	-	-	-	1,869	-	-	1,869	1,869
Equipment	15,511	8,860	584	187	260	51,212	76,614	18,374	1,038	-	96,026	74,297
Travel and transportation	6,317	10,548	10,757	82	440	57,881	86,025	2,923	1,253	-	90,201	122,697
Conferences and meetings	749	222	132	-	189	5	1,297	1,793	418	-	3,508	-
Specific Assistance to Individuals:												
Food	104,613	49,440	314	108	16	3	154,494	40	16	-	154,550	116,995
Medical	177	-	-	-	-	-	177	-	-	-	177	102
Clothing, allowance and other	19,657	7,722	329	159	-	17,188	45,055	-	-	-	45,055	68,767
Contributed clothing and merchandise	53,080	34,925	461	-	-	-	88,466	-	-	-	88,466	75,803
Temporary help	1,665	1,343	200	-	-	300	3,508	440	-	-	3,948	21,756
Other purchased services	178,448	72,676	23,378	23,716	7,812	487,560	793,590	79,317	19,898	157,564	1,050,369	878,981
Dues, licenses and permits	1,454	1,091	31	121	274	6,508	9,479	251	760	-	10,490	11,630
Subscriptions and publications	8	16	8	-	934	8	974	71	1,303	-	2,348	1,155
Staff recruitment	1,402	59	-	-	8	-	1,469	1,213	14	-	2,696	8,073
Insurance	30,538	21,276	6,503	3,813	1,119	115,433	178,682	11,712	2,731	-	193,125	160,650
Contributed services	-	-	-	-	-	-	-	-	-	-	-	59,024
Miscellaneous	2,550	2,286	643	-	667	27,947	34,093	18,597	2,321	-	55,011	81,284
Bank charges and fees	117	7	3	-	3,891	3,039	7,057	31,812	7,094	-	45,963	27,927
Interest	-	-	-	-	-	-	-	-	-	-	-	18,297
	1,977,060	1,013,880	314,328	99,653	159,037	7,588,628	11,152,586	787,460	469,706	157,564	12,567,316	11,163,460
Depreciation and amortization	49,730	16,123	1,622	3,455	69	201,711	272,710	114,893	-	-	387,603	306,958
Total Functional Expenses	2,026,790	1,030,003	315,950	103,108	159,106	7,790,339	11,425,296	902,353	469,706	157,564	12,954,919	11,470,418
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(157,564)	(157,564)	(151,073)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,026,790	\$ 1,030,003	\$ 315,950	\$ 103,108	\$ 159,106	\$ 7,790,339	\$ 11,425,296	\$ 902,353	\$ 469,706	\$ -	\$ 12,797,355	\$ 11,319,345

## Covenant House Michigan

Consolidated Statement of Cash Flows  
Year Ended June 30, 2019  
(with comparative amounts for year ended June 30, 2018)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 467,399	\$ 3,033,343
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	387,602	306,958
Net realized/unrealized gain on investments	(233,783)	(180,128)
Contributions for restricted purposes	(200,000)	(1,893,267)
Donated securities	(10,576)	(896,214)
Net change in operating assets and liabilities		
Receivables	321,029	(585,780)
Prepaid expenses and other assets	8,166	68,149
Due from related parties	(434,619)	336,831
Accounts payable and accrued expenses	13,653	(6,273)
Deferred revenue	202,153	(11,939)
Net Cash from Operating Activities	521,024	171,680
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	-	(2,921,798)
Proceeds from sales of donated securities	-	921,729
Proceeds from sales of investments	911,527	1,017,842
Purchase of property and equipment	(3,108,904)	(1,152,270)
Net Cash from Investing Activities	(2,197,377)	(2,134,497)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash contributions for restricted purposes	200,000	1,893,267
Change in Cash and Cash Equivalents	(1,476,353)	(69,550)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	3,937,918	4,007,468
End of year	\$ 2,461,565	\$ 3,937,918
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ -	\$ 18,297

See notes to consolidated financial statements

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2019

### 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 74,000 and 89,000 young people during fiscal 2019 and 2018 (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 730 and 800 (unaudited) students during the years ended June 30, 2019 and 2018.

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
- CH Housing Development Fund Corporation
- Rights of Passage, Inc.
- 268 West 44th Corporation
- 460 West 41st Street, LLC

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
- 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, 2019

### 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.

*Medical (House of Hope)* – the medical program is designed to address the co-occurring disorders of youth who require additional support in addictions/recovery and with their mental health diagnoses. Residents are assisted with employability skills, returning to complete educational goals, permanent housing opportunities, health and wellness activities, nutrition, medication management and activities of daily living.

*Schools* - CHM initiated and oversaw the creation of three public school academies within the Metropolitan Detroit area. 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.

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, 2019

### 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.

#### ***Change in Accounting Principle***

On July 1, 2018, the Organization adopted new U.S. GAAP guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Organization to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Organization to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2019

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

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

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

*Net Assets Without Donor Restrictions* – net assets available for use in general operations and not subject to donor restrictions.

*Net Assets With Donor Restrictions* – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### ***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.

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 schools. 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.

#### ***Deferred Revenue***

Deferred revenue represents amounts received by the Organization which pertain to programs and services of the following fiscal year.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2019

### 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 \$88,466 and \$134,827 for the years ended June 30, 2019 and 2018. Of these non-monetary transactions, \$88,466 and \$75,803 was recorded as in-kind donations for clothing and household supplies received for the programs for the years ended June 30, 2019 and 2018. For the years ended June 30, 2019 and 2018, \$0 and \$59,024 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 money market funds 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, 2019

### 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 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 program and supporting services have been summarized on a functional basis. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization allocated direct costs to program services. Supporting services include management and general and fundraising. Allocated expenses among program services and management and general and fundraising include salaries and related expenses, staff travel, consulting and professional fees, and other expenses which are allocated based on time and costs where efforts are made.

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

Long-lived assets, such as property 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, 2018 is presented for comparative purposes only. Certain activity by net asset classification are not included in these financial statements. Accordingly, such information does not include 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, 2018, from which the summarized comparative information was derived.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2019

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

#### ***Advertising Costs***

Advertising costs are expensed as incurred. Advertising expense was \$46,862 and \$38,594 for the years ended June 30, 2019 and 2018.

#### ***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, 2016.

#### ***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 December 6, 2019.

### 3. 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, 2019, all investments were maintained by large financial institutions. The Organization maintains its cash with established commercial banks.

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

### Notes to Consolidated Financial Statements June 30, 2019

#### 4. Liquidity and Availability

Financial assets available for general expenditure, that is, without restrictions limiting their use, within one year of June 30, 2019 are as follows:

Financial assets:	
Cash and cash equivalents	\$2,461,565
Receivables	758,567
Investments	<u>4,611,955</u>
Total financial assets	7,832,087
Less those unavailable for general expenditure within one year, due to:	
Contractual or donor-imposed restricted amounts:	
Restricted by donor with time or purpose restrictions	<u>600,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$7,232,087</u>

The Organization's working capital and cash flows are driven by contributions, grants and special event revenue. The Organization manages its financial assets to be available for its operating expenditures, liabilities and other obligations as they come due.

#### 5. 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, 2019 and 2018 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, 2019 and 2018.

## Covenant House Michigan

### Notes to Consolidated Financial Statements June 30, 2019

#### 6. Property and Equipment

Property and equipment consist of the following at June 30:

	2019	2018
Buildings	\$10,157,212	\$6,149,429
Site improvements	1,054,509	1,054,509
Furniture and equipment	887,528	653,709
Vehicles	44,423	21,165
	12,143,672	7,878,812
Accumulated depreciation and amortization	(3,742,458)	(3,354,856)
	8,401,214	4,523,956
Construction-in-progress	2,445	1,158,401
Land	216,000	216,000
	\$ 8,619,659	\$5,898,357

Depreciation and amortization expense was \$387,602 and \$306,958 for the years ended June 30, 2019 and 2018.

#### 7. Investments

Investments at June 30, 2019 and 2018 consist of 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:

	2019	2018
Mutual funds	\$ 3,057,605	\$ 3,435,172
Exchange traded and closed-end funds	1,193,961	904,685
Money market funds, at cost	360,389	939,266
	\$ 4,611,955	\$ 5,279,123

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

	2019	2018
Realized and unrealized gains on investments	\$ 233,783	\$ 180,128
Rent revenue	54,286	26,380
Other income	93,250	77,655
	\$ 381,319	\$ 284,163



## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2019

### 8. 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 2023. Rental expense under all operating leases amounted to \$49,608 and \$61,861 for the years ended June 30, 2019 and 2018.

Future minimum lease payments under non-cancelable leases at June 30, 2019, are as follow for the years ending June 30:

2020	\$ 17,362
2021	17,362
2022	9,355
2023	3,636
2024	<u>1,515</u>
	<u>\$ 49,230</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 net assets with donor restrictions 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 shelter and crisis center, Rights of Passage, House of Hope, 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.

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 \$714,974 and \$461,799 for years ended June 30, 2019 and 2018.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2019

### 8. 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.

### 9. Net Asset Classifications and Releases from Donor-Imposed Restriction

At June 30, 2019 and 2018 net assets with donor restrictions of \$147,620 and \$149,489 were time restricted. Additionally, at June 30, 2019 and 2018, there were net assets with donor restrictions in the amount of \$600,000 and \$1,849,391 for the purpose of site improvements and constructing a new crisis center. At June 30, 2019 and 2018, \$200,000 and \$1,165,391 were included in cash and cash equivalents and \$400,000 and \$684,000 were included in receivables. Net assets of \$1,851,260 and \$1,090,641 were released from restriction by satisfying the restricted purpose for the years ended June 30, 2019 and 2018.

### 10. 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 \$66.0 and \$64.0 million for the Parent during the years ended June 30, 2019 and 2018. 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 \$34.0 and \$35.0 million for the years ended June 30, 2019 and 2018. In fiscal 2019 and 2018, the Organization received \$673,000 and \$762,000 in contributions from the Parent. Additionally, in fiscal 2019 and 2018, the Organization received \$157,506 and \$183,012 from the Parent relating to national sleep out events.

At June 30, 2019 and 2018, the Organization had receivables from related parties amounting to \$1,801,501 and \$1,366,882 relating to management fees.

### 11. 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 to the 403(b) plan was \$91,348 and \$128,691 for the years ended June 30, 2019 and 2018.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2019

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

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 2019 and 2018, the Organization contributed \$62,307 and \$12,908 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expenses.

### 12. Grants and Contracts

CHM was awarded a cost-reimbursable City of Detroit Block Grant. As of June 30, 2019 and 2018, the Organization has recorded a receivable of \$64,797 and \$61,304 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, 2019 and 2018, the Organization has recorded a receivable of \$56,415 and \$117,494 from the City of Detroit representing services performed under this award.

CHM was awarded a cost-reimbursable Salvation Army Grant. As of June 30, 2019 and 2018 the Organization has recorded a receivable of \$19,908 and \$34,256 representing services performed under this award.

CHM was awarded a cost-reimbursable ACYF Transitional Living Program Grant. As of June 30, 2019 and 2018, the Organization has recorded a receivable of \$13,272 and \$0 representing services performed under this award.

CHM was awarded a cost-reimbursable ACYF Outreach Grant. As of June 30, 2019 and 2018, the Organization has recorded a receivable of \$9,850 and \$0 representing services performed under this award.

\* \* \* \* \*

**Covenant House Michigan**

Supplementary Information

June 30, 2019

**Covenant House Michigan**

Consolidating Schedule of Financial Position  
(with summarized totals at June 30, 2018)

	June 30, 2019			Total	2018 Total
	CHM	YVS	Eliminations		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 813,457	\$ 1,648,108	\$ -	\$ 2,461,565	\$ 3,937,918
Investments	4,611,955	-	-	4,611,955	5,279,123
Receivables	732,612	25,955	-	758,567	1,079,596
Due from related parties	96,185	1,801,501	(96,185)	1,801,501	1,366,882
Prepaid expenses and other assets	8,615	49,358	-	57,973	66,139
Property and equipment, net	8,459,881	159,778	-	8,619,659	5,898,357
	<u>\$ 14,722,705</u>	<u>\$ 3,684,700</u>	<u>\$ (96,185)</u>	<u>\$ 18,311,220</u>	<u>\$ 17,628,015</u>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities					
Accounts payable and accrued expenses	\$ 300,515	\$ 402,379	\$ (96,185)	\$ 606,709	\$ 593,056
Deferred revenue	329,653	-	-	329,653	127,500
Total Liabilities	<u>630,168</u>	<u>402,379</u>	<u>(96,185)</u>	<u>936,362</u>	<u>720,556</u>
Net Assets					
Without donor restrictions	4,885,036	3,122,543	-	8,007,579	9,010,222
Investment in property and equipment	8,459,881	159,778	-	8,619,659	5,898,357
Total Without Donor Restrictions	13,344,917	3,282,321	-	16,627,238	14,908,579
With donor restrictions	747,620	-	-	747,620	1,998,880
Total Net Assets	<u>14,092,537</u>	<u>3,282,321</u>	<u>-</u>	<u>17,374,858</u>	<u>16,907,459</u>
	<u>\$ 14,722,705</u>	<u>\$ 3,684,700</u>	<u>\$ (96,185)</u>	<u>\$ 18,311,220</u>	<u>\$ 17,628,015</u>

**Covenant House Michigan**

Consolidating Schedule of Activities  
(with summarized totals for year ended June 30, 2018)

Year Ended June 30, 2019

	CHM		YVS		Eliminations	Total	2018 Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	Sub-total			
<b>SUPPORT AND REVENUE</b>							
Contributions	\$ 1,835,712	\$ 600,000	\$ -	\$ 2,435,712	\$ -	\$ 2,435,712	\$ 3,997,340
Government grants	714,974	-	-	714,974	-	714,974	461,799
Branding dollars from Parent	673,000	-	-	673,000	-	673,000	762,000
Grants from Parent related to national sleep out events	157,506	-	-	157,506	-	157,506	183,012
Special events, net	240,271	-	-	240,271	-	240,271	342,006
Contributed services, merchandise, and public service announcements	88,466	-	-	88,466	-	88,466	134,827
Total Support and Revenue	<u>3,709,929</u>	<u>600,000</u>	<u>-</u>	<u>4,309,929</u>	<u>-</u>	<u>4,309,929</u>	<u>5,880,984</u>
<b>INVESTMENT AND OTHER INCOME</b>							
Interest income	5,693	-	5,424	11,117	-	11,117	16,823
Management fee income	-	-	8,562,389	8,562,389	-	8,562,389	8,170,718
Other income	1,169,870	-	145,683	1,315,553	(934,234)	381,319	284,163
Total Investment and Other Income	<u>1,175,563</u>	<u>-</u>	<u>8,713,496</u>	<u>9,889,059</u>	<u>(934,234)</u>	<u>8,954,825</u>	<u>8,471,704</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	4,885,492	600,000	8,713,496	14,198,988	(934,234)	13,264,754	14,352,688
Net assets released from restrictions	<u>1,851,260</u>	<u>(1,851,260)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>6,736,752</u>	<u>(1,251,260)</u>	<u>8,713,496</u>	<u>14,198,988</u>	<u>(934,234)</u>	<u>13,264,754</u>	<u>14,352,688</u>
<b>EXPENSES</b>							
Program Services							
Shelter and crisis care	2,026,790	-	-	2,026,790	-	2,026,790	1,720,687
Rights of Passage	1,030,003	-	-	1,030,003	-	1,030,003	1,036,514
Outreach	315,950	-	-	315,950	-	315,950	270,455
Medical	103,108	-	-	103,108	-	103,108	-
Public education and advocacy	159,106	-	-	159,106	-	159,106	162,259
Schools	208,165	-	8,516,408	8,724,573	(934,234)	7,790,339	7,081,126
Total Program Services	<u>3,843,122</u>	<u>-</u>	<u>8,516,408</u>	<u>12,359,530</u>	<u>(934,234)</u>	<u>11,425,296</u>	<u>10,271,041</u>
Supporting Services							
Management and general	902,353	-	-	902,353	-	902,353	718,760
Fundraising	469,706	-	-	469,706	-	469,706	329,544
Total Supporting Services	<u>1,372,059</u>	<u>-</u>	<u>-</u>	<u>1,372,059</u>	<u>-</u>	<u>1,372,059</u>	<u>1,048,304</u>
Total Expenses	<u>5,215,181</u>	<u>-</u>	<u>8,516,408</u>	<u>13,731,589</u>	<u>(934,234)</u>	<u>12,797,355</u>	<u>11,319,345</u>
Change in Net Assets	1,521,571	(1,251,260)	197,088	467,399	-	467,399	3,033,343
<b>NET ASSETS</b>							
Beginning 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>
End of year	<u>\$ 13,344,917</u>	<u>\$ 747,620</u>	<u>\$ 3,282,321</u>	<u>\$ 17,374,858</u>	<u>\$ -</u>	<u>\$ 17,374,858</u>	<u>\$ 16,907,459</u>

See independent auditors' report