

Covenant House Michigan

Consolidated Financial Statements

June 30, 2016

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, 2016, 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, 2016 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, 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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 statements of financial position and activities appearing on pages 17 through 18 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
December 21, 2016

Covenant House Michigan

Consolidated Statement of Financial Position June 30, 2016 (with comparative amounts at June 30, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 4,785,809	\$ 4,307,915
Investments	1,015,113	1,822,643
Receivables	606,218	543,247
Due from related parties	1,171,382	1,169,080
Prepaid expenses and other assets	26,395	161,360
Property and equipment, net	5,246,484	5,315,133
	<u>\$ 12,851,401</u>	<u>\$ 13,319,378</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 599,333	\$ 491,183
Deferred revenue	72,735	35,000
Deferred compensation	-	101,998
Due to Parent	-	5,627
	<u>672,068</u>	<u>633,808</u>
Total Liabilities		
Net Assets		
Unrestricted		
Board-designated unrestricted	-	1,500,000
Unrestricted	6,779,622	5,715,341
Investment in property and equipment, net	5,246,484	5,315,133
	<u>12,026,106</u>	<u>12,530,474</u>
Total Unrestricted		
Temporarily restricted	153,227	155,096
	<u>12,179,333</u>	<u>12,685,570</u>
Total Net Assets		
	<u>\$ 12,851,401</u>	<u>\$ 13,319,378</u>

Covenant House Michigan
Consolidated Statement of Activities
Year Ended June 30, 2016
(with summarized totals for year ended June 30, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Contributions	\$ 1,350,383	\$ -	\$ 1,350,383	\$ 1,448,031
Government grants	657,055	-	657,055	615,294
Branding dollars from Parent	887,000	-	887,000	972,000
Grants from Parent related to national sleep out event	192,692	-	192,692	121,663
Special events, net of direct benefits to donors of \$104,551 and \$42,396	405,374	-	405,374	266,206
Contributed services, merchandise, and public service announcements	99,246	-	99,246	227,549
Total Support and Revenue	<u>3,591,750</u>	<u>-</u>	<u>3,591,750</u>	<u>3,650,743</u>
INVESTMENT AND OTHER INCOME				
Interest income	30,305	-	30,305	21,133
Management fee income	7,739,382	-	7,739,382	9,148,273
Other income	263,218	-	263,218	449,906
Total Investment and Other Income	<u>8,032,905</u>	<u>-</u>	<u>8,032,905</u>	<u>9,619,312</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	11,624,655	-	11,624,655	13,270,055
Net assets released from restrictions	<u>1,869</u>	<u>(1,869)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>11,626,524</u>	<u>(1,869)</u>	<u>11,624,655</u>	<u>13,270,055</u>
EXPENSES				
Program Services				
Shelter and crisis care	1,210,915	-	1,210,915	1,367,500
Rights of passage	1,060,822	-	1,060,822	1,127,291
Outreach	279,595	-	279,595	311,372
Public education and advocacy	226,114	-	226,114	342,121
Schools	8,400,946	-	8,400,946	7,666,993
Total Program Services	<u>11,178,392</u>	<u>-</u>	<u>11,178,392</u>	<u>10,815,277</u>
Supporting Services				
Management and general	628,945	-	628,945	343,219
Fundraising	323,555	-	323,555	194,260
Total Supporting Services	<u>952,500</u>	<u>-</u>	<u>952,500</u>	<u>537,479</u>
Total Expenses	<u>12,130,892</u>	<u>-</u>	<u>12,130,892</u>	<u>11,352,756</u>
Change in Net Assets	(504,368)	(1,869)	(506,237)	1,917,299
NET ASSETS				
Beginning of year	<u>12,530,474</u>	<u>155,096</u>	<u>12,685,570</u>	<u>10,768,271</u>
End of year	<u>\$ 12,026,106</u>	<u>\$ 153,227</u>	<u>\$ 12,179,333</u>	<u>\$ 12,685,570</u>

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statement of Functional Expenses
Year Ended June 30, 2016
(with summarized totals for year ended June 30, 2015)

	Program Services					Supporting Services			Cost of		2015
	Shelter and Crisis Care	Rights of Passage	Outreach	Public Education and Advocacy	Schools	Total Program Services	Management and General	Fundraising	Direct Benefits To Donors	Total	Total Expenses
Salaries and wages	\$ 581,250	\$ 556,964	\$ 164,126	\$ 142,890	\$ 4,780,540	\$ 6,225,770	\$ 302,313	\$ 200,827	\$ -	\$ 6,728,910	\$ 6,231,240
Payroll taxes	52,804	43,270	11,904	10,400	351,318	469,696	21,798	14,814	-	506,308	519,344
Employee benefits	128,588	118,910	40,028	22,827	984,042	1,294,365	105,189	43,509	-	1,443,093	1,112,072
Total Salaries and Related Expenses	762,642	719,144	216,058	176,117	6,115,900	7,989,861	429,300	259,150	-	8,678,311	7,862,856
Faith community costs	4,043	4,620	1,733	1,155	-	11,551	-	-	-	11,551	500
Contributed public service announcements	-	-	-	-	-	-	-	-	-	-	82,896
Accounting fees	-	-	-	-	136,479	136,479	34,000	-	-	170,479	82,483
Legal fees	473	473	237	1,419	29,893	32,295	1,766	946	-	35,007	91,792
Medical fees	26,396	18,215	271	-	-	44,882	-	-	-	44,882	54,409
Consulting fees	5,239	5,239	2,619	17,320	780	31,197	6,186	26,560	-	63,943	423,257
Supplies	18,719	15,578	2,786	627	391,837	429,547	5,543	986	-	436,076	382,043
Telephone	2,875	2,332	976	431	55,969	62,283	3,429	391	-	66,103	53,142
Postage and printing	88	74	447	16,913	5,468	23,010	1,278	18,707	-	42,965	48,392
Occupancy:											
Fuel and utilities	43,609	29,421	3,154	87	197,004	273,275	10,823	-	-	284,098	330,583
Repairs and maintenance	7,736	8,093	2,178	38	134,048	152,093	1,763	-	-	153,856	296,088
Rent and other	-	-	-	-	120	120	1,869	-	-	1,989	1,868
Equipment	20,564	17,327	2,925	970	51,650	93,436	25,574	1,540	-	120,550	79,852
Travel and transportation	11,043	8,460	5,904	2,554	93,036	120,997	4,643	2,688	-	128,328	91,230
Specific Assistance to Individuals:											
Food	72,651	49,521	1,202	-	264	123,638	88	-	-	123,726	131,884
Medical	54	158	14	-	-	226	-	-	-	226	230
Clothing, allowance and other	12,977	9,268	335	-	64,969	87,549	-	-	-	87,549	19,778
Contributed clothing and merchandise	26,216	13,108	4,369	-	-	43,693	-	-	-	43,693	79,935
Temporary help	1,171	1,171	335	-	502	3,179	402	-	-	3,581	9,682
Other purchased services	108,017	92,713	21,438	4,580	702,042	928,790	44,233	6,327	104,551	1,083,901	467,229
Dues, licenses and permits	2,850	3,031	637	253	4,566	11,337	1,086	216	-	12,639	191,648
Subscriptions and publications	10	10	5	36	5	66	863	49	-	978	265
Staff recruitment	-	-	-	-	11,282	11,282	1,074	-	-	12,356	5,002
Insurance	20,561	17,580	4,342	133	147,939	190,555	15,284	-	-	205,839	202,096
Contributed services	33,331	22,221	-	-	-	55,552	-	-	-	55,552	64,764
Miscellaneous	999	2,961	333	1,592	57,861	63,746	6,075	1,495	-	71,316	74,205
Bank charges and fees	61	61	18	1,474	228	1,842	9,708	4,500	-	16,050	7,731
Interest	-	-	-	-	7,439	7,439	-	-	-	7,439	22,599
Depreciation and amortization	1,182,125	1,040,779	272,316	225,699	8,209,001	10,929,920	604,987	323,555	104,551	11,963,013	11,158,349
	28,790	20,043	7,279	415	191,945	248,472	23,958	-	-	272,430	236,803
Total Functional Expenses	1,210,915	1,060,822	279,595	226,114	8,400,946	11,178,392	628,945	323,555	104,551	12,235,443	11,395,152
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	(104,551)	(104,551)	(42,396)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,210,915	\$ 1,060,822	\$ 279,595	\$ 226,114	\$ 8,400,946	\$ 11,178,392	\$ 628,945	\$ 323,555	\$ -	\$ 12,130,892	\$ 11,352,756

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statement of Cash Flows

Year Ended June 30, 2016

(with comparative amounts for year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (506,237)	\$ 1,917,299
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	272,430	236,803
Unrealized gains on investments	(16,173)	-
Net change in operating assets and liabilities		
Receivables	(62,971)	(271,028)
Prepaid expenses and other assets	134,965	59,452
Accounts payable and accrued expenses	108,150	(1,591)
Due from related parties	(2,302)	(108,833)
Due to Parent	(5,627)	7,093
Deferred compensation	(101,998)	(272,974)
Deferred revenue	37,735	140,296
Net Cash from Operating Activities	<u>(142,028)</u>	<u>1,706,517</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,000,000)	(25,934)
Proceeds from sales of investments	1,823,703	-
Purchase of property and equipment	(203,781)	(185,486)
Net Cash from Investing Activities	<u>619,922</u>	<u>(211,420)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease	<u>-</u>	<u>(3,049)</u>
Change in Cash and Cash Equivalents	477,894	1,492,048
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,307,915</u>	<u>2,815,867</u>
End of year	<u>\$ 4,785,809</u>	<u>\$ 4,307,915</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ -	\$ 22,588

See notes to consolidated financial statements

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

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 New York-based organization. CHM provides shelter, food, clothing, counseling, public education and other services to homeless and at-risk youth in the Detroit, Michigan metropolitan area. The Parent is the sole member of the CHM and is itself a private, not-for-profit organization which, through its affiliates, provided shelter, food, clothing, counseling, medical attention, crisis intervention and other services to 46,991 and 51,173 (unaudited) runaway, homeless and at-risk youths during the years ended June 30, 2016 and 2015.

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 823 and 1,004 (unaudited) students during the years ended June 30, 2016 and 2015.

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 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
- Covenant House Toronto
- Covenant House Vancouver
- Asociacion La Alianza (Guatemala)
- Casa Alianza De Honduras
- Casa Alianza Nicaragua
- Casa Alianza Internacional
- Rights of Passage, Inc.
- 268 West 44th Corporation
- Fundacion Casa Alianza Mexico, I.A.P.

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.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

1. Organization and Nature of Operations (continued)

Components of Program and Supporting Services

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

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

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

Schools - CHM initiated and oversaw the creation of three public school academies within the Metropolitan Detroit area. Beginning July 1, 2013, the academies are governed by a public board appointed by the authorizing body, Grand Valley State University ("GVSU"). The academies operate pursuant to a charter contract issued by GVSU and operate as independent public schools under the state law. The academies provide education, for homeless and at-risk children and those who have dropped out of school while in grades nine through twelve, and assists students in earning their high school diplomas.

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

During the year ended June 30, 2014, Covenant House Academy-Grand Rapids ("CHA-GR") opened with a governing public board appointed by 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.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

1. Organization and Nature of Operations (continued)

Components of Program and Supporting Services (continued)

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.

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.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

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 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.

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

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

Contributed Services, Public Service Announcements and In-Kind Donations

Contributed services are recognized as revenue if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenue and are not reported in the accompanying consolidated financial statements. Contributed public service announcements are recorded at the fair value of the service or product provided. In-kind donations of goods are recorded at fair value as of the date of the donation.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

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

Total revenue from contributed services, public service announcements, and merchandise was \$99,246 and \$227,549 for the years ended June 30, 2016 and 2015. Of these non-monetary transactions, \$43,694 and \$83,121 was recorded as in-kind donations for clothing and household supplies received for the programs for the years ended June 30, 2016 and 2015. For the years ended June 30, 2016 and 2015, \$55,552 and \$61,628 was recorded as program expense for mental health therapists' and nurse practitioners' contributed services. For the years ended June 30, 2016 and 2015, \$0 and \$82,800 was recorded as public service announcements for public education and advocacy.

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 are stated at cost plus accrued interest. Long-term investments include mutual funds and trade 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.

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.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

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 impairments or 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.

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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$36,000 and \$32,200 for the years ended June 30, 2016 and 2015.

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, 2013.

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 21, 2016.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

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, 2016 and 2015 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, 2016 and 2015.

4. Property and Equipment

Property and equipment consist of the following at June 30:

	2016	2015
Buildings	\$ 6,149,429	\$ 6,149,429
Site improvements	1,001,705	925,122
Furniture and equipment	628,639	467,466
	<u>7,779,773</u>	<u>7,542,017</u>
Accumulated depreciation and amortization	(2,749,289)	(2,442,884)
	<u>5,030,484</u>	<u>5,099,133</u>
Land	216,000	216,000
	<u>\$ 5,246,484</u>	<u>\$ 5,315,133</u>

Depreciation and amortization expense was \$272,430 and \$236,803 for the years ended June 30, 2016 and 2015.

5. Investments

Investments at June 30, 2016 and 2015 consist of certificates of deposit at cost, mutual funds and trade 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:

	2016	2015
Certificates of deposit	\$ 407,452	\$ 1,410,670
Mutual funds	306,103	411,973
Trade and closed-end funds	301,558	-
	<u>\$ 1,015,113</u>	<u>\$ 1,822,643</u>

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

5. Investments (continued)

The components of other income consist of the following at June 30, 2016 and 2015:

	2016	2015
Unrealized gains and losses on investments	\$ 16,173	\$ -
Housekeeping	-	108,533
Act 18 interdistrict revenue	64,415	136,841
Rent revenue	55,376	130,496
Other income	127,254	74,036
	<u>\$ 263,218</u>	<u>\$ 449,906</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 August 2018. Rental expense under all operating leases amounted to \$49,771 and \$47,413 for the years ended June 30, 2016 and 2015.

Future minimum lease payments under non-cancelable leases at June 30, 2016, are as follow for the years ending June 30:

2017	\$ 30,987
2018	30,987
2019	5,165
	<u>\$ 67,139</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.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

6. Commitments and Contingencies (*continued*)

Operating Leases (continued)

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 \$657,055 and \$615,294 for years ended June 30, 2016 and 2015.

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, 2016 and 2015 temporarily restricted net assets of \$153,227 and \$155,096 were time restricted. Net assets of \$1,869 were released from restriction by satisfying the restricted purpose for each of the years ended June 30, 2016 and 2015.

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 \$64.3 million and \$60.8 million for the Parent in years ended June 30, 2016 and 2015. 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 \$33.6 million and \$31.3 million for the years ended 2016 and 2015. In fiscal 2016 and 2015, the Organization received \$887,000 and \$972,000 in contributions from the Parent.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2016 and 2015

8. Related-Party Transactions (continued)

At June 30, 2016 and 2015, YVS had receivables from related parties amounting to \$1,171,382 and \$1,169,080 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 to the 403(b) plan was \$93,920 and \$64,310 for the years ended June 30, 2016 and 2015.

During the year ended June 30, 2012, a deferred compensation agreement was entered into with YVS's former Chief Executive Officer. Under the agreement, deferred compensation of an applicable dollar amount was accrued for the plan through the plan year ended December 31, 2014. Long-term investments designated for the deferred compensation plan were \$101,998 at June 30, 2015. The deferred compensation was paid to the former employee during 2016 and the plan was terminated.

10. Grants and Contracts

CHM was awarded a cost-reimbursable City of Detroit Block Grant. As of June 30, 2016 and 2015, the Organization has recorded a receivable of \$68,850 and \$83,428 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, 2016 and 2015, the Organization has recorded a receivable of \$85,443 and \$63,876 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, 2016 and 2015, the Organization has recorded a receivable of \$137,472 and \$130,612 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, 2016, 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, 2016 and 2015

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.

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Covenant House Michigan

Supplementary Information

June 30, 2016

Covenant House Michigan

Consolidating Statements of Financial Position (with summarized totals at June 30, 2015)

	June 30, 2016				2015
	CHM	YVS	Eliminations	Total	Total
ASSETS					
Cash and cash equivalents	\$ 4,105,477	\$ 680,332	\$ -	\$ 4,785,809	\$ 4,307,915
Investments	1,015,113	-	-	1,015,113	1,822,643
Receivables	596,478	9,740	-	606,218	543,247
Due from related parties	87,760	1,171,382	87,760	1,171,382	1,169,080
Prepaid expenses and other assets	20,123	6,272	-	26,395	161,360
Property and equipment, net	4,935,345	311,139	-	5,246,484	5,315,133
	<u>\$ 10,760,296</u>	<u>\$ 2,178,865</u>	<u>\$ 87,760</u>	<u>\$ 12,851,401</u>	<u>\$ 13,319,378</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 310,966	\$ 376,127	\$ 87,760	\$ 599,333	\$ 491,183
Deferred revenue	72,735	-	-	72,735	35,000
Deferred compensation	-	-	-	-	101,998
Due to Parent	-	-	-	-	5,627
	<u>383,701</u>	<u>376,127</u>	<u>87,760</u>	<u>672,068</u>	<u>633,808</u>
Net Assets					
Unrestricted					
Board-designated unrestricted	-	-	-	-	1,500,000
Unrestricted	5,288,023	1,491,599	-	6,779,622	5,715,341
Investment in property and equipment, net	4,935,345	311,139	-	5,246,484	5,315,133
	<u>10,223,368</u>	<u>1,802,738</u>	<u>-</u>	<u>12,026,106</u>	<u>12,530,474</u>
Temporarily restricted	<u>153,227</u>	<u>-</u>	<u>-</u>	<u>153,227</u>	<u>155,096</u>
	<u>10,376,595</u>	<u>1,802,738</u>	<u>-</u>	<u>12,179,333</u>	<u>12,685,570</u>
	<u>\$ 10,760,296</u>	<u>\$ 2,178,865</u>	<u>\$ 87,760</u>	<u>\$ 12,851,401</u>	<u>\$ 13,319,378</u>

Covenant House Michigan
Consolidating Statements of Activities
(with summarized totals for year ended June 30, 2015)

June 30, 2016

	CHM		YVS				
	Unrestricted	Temporarily Restricted	Unrestricted	Sub-total	Eliminations	Total	2015 Total
SUPPORT AND REVENUE							
Contributions	\$ 1,350,383	\$ -	\$ -	\$ 1,350,383	\$ -	\$ 1,350,383	\$ 1,448,031
Government grants	657,055	-	-	657,055	-	657,055	615,294
Branding dollars from Parent	887,000	-	-	887,000	-	887,000	972,000
Grants from Parent related to national sleep out event	192,692	-	-	192,692	-	192,692	121,663
Special events, net	405,374	-	-	405,374	-	405,374	266,206
Contributed services, merchandise, and public service announcements	99,246	-	-	99,246	-	99,246	227,549
Total Support and Revenue	3,591,750	-	-	3,591,750	-	3,591,750	3,650,743
INVESTMENT AND OTHER INCOME							
Interest income	24,617	-	5,688	30,305	-	30,305	21,133
Management fee income	-	-	7,739,382	7,739,382	-	7,739,382	9,148,273
Other income	1,026,483	-	208,467	1,234,950	(971,732)	263,218	449,906
Total Investment and Other Income	1,051,100	-	7,953,537	9,004,637	(971,732)	8,032,905	9,619,312
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	4,642,850	-	7,953,537	12,596,387	(971,732)	11,624,655	13,270,055
Net assets released from restrictions	1,869	(1,869)	-	-	-	-	-
Total Support and Revenue and Investment and Other Income	4,644,719	(1,869)	7,953,537	12,596,387	(971,732)	11,624,655	13,270,055
EXPENSES							
Program Services							
Shelter and crisis care	1,210,915	-	-	1,210,915	-	1,210,915	1,367,500
Rights of passage	1,060,822	-	-	1,060,822	-	1,060,822	1,127,291
Outreach	279,595	-	-	279,595	-	279,595	311,372
Public education and advocacy	226,114	-	-	226,114	-	226,114	342,121
Schools	280,733	-	9,091,945	9,372,678	(971,732)	8,400,946	7,666,993
Total Program Services	3,058,179	-	9,091,945	12,150,124	(971,732)	11,178,392	10,815,277
Supporting Services							
Management and general	628,945	-	-	628,945	-	628,945	343,219
Fundraising	323,555	-	-	323,555	-	323,555	194,260
Total Supporting Services	952,500	-	-	952,500	-	952,500	537,479
Total Expenses	4,010,679	-	9,091,945	13,102,624	(971,732)	12,130,892	11,352,756
Change in Net Assets	634,040	(1,869)	(1,138,408)	(506,237)	-	(506,237)	1,917,299
NET ASSETS							
Beginning of year	9,589,328	155,096	2,941,146	12,685,570	-	12,685,570	10,768,271
End of year	\$ 10,223,368	\$ 153,227	\$ 1,802,738	\$ 12,179,333	\$ -	\$ 12,179,333	\$ 12,685,570
See independent auditors' report							