

Covenant House Michigan

Consolidated Financial Statements

and Supplementary Information
June 30, 2017

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, 2017, 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, 2017 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, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 18 through 19 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 4, 2017

Covenant House Michigan

Consolidated Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 4,007,468	\$ 4,785,809
Investments	3,220,554	1,015,113
Receivables	493,816	606,218
Due from related parties	1,703,713	1,171,382
Prepaid expenses and other assets	134,288	26,395
Property and equipment, net	<u>5,053,045</u>	<u>5,246,484</u>
	<u>\$ 14,612,884</u>	<u>\$ 12,851,401</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 599,329	\$ 599,333
Deferred revenue	<u>139,439</u>	<u>72,735</u>
Total Liabilities	<u>738,768</u>	<u>672,068</u>
Net Assets		
Unrestricted	7,631,358	6,779,622
Investment in property and equipment	<u>5,053,045</u>	<u>5,246,484</u>
Total Unrestricted	12,684,403	12,026,106
Temporarily restricted	<u>1,189,713</u>	<u>153,227</u>
Total Net Assets	<u>13,874,116</u>	<u>12,179,333</u>
	<u>\$ 14,612,884</u>	<u>\$ 12,851,401</u>

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statement of Activities
 Year Ended June 30, 2017
 (with summarized totals for year ended June 30, 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE				
Contributions	\$ 1,040,546	\$ 1,038,355	\$ 2,078,901	\$ 1,350,383
Government grants	680,905	-	680,905	657,055
Branding dollars from Parent	877,000	-	877,000	887,000
Grants from Parent related to national sleep out events	237,292	-	237,292	192,692
Special events, net of direct benefits to donors of \$122,774 and \$104,551	403,415	-	403,415	405,374
Contributed services, merchandise, and public service announcements	221,325	-	221,325	99,246
Total Support and Revenue	3,460,483	1,038,355	4,498,838	3,591,750
INVESTMENT AND OTHER INCOME				
Interest income	28,883	-	28,883	30,305
Management fee income	8,414,286	-	8,414,286	7,739,382
Other income	357,029	-	357,029	263,218
Total Investment and Other Income	8,800,198	-	8,800,198	8,032,905
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	12,260,681	1,038,355	13,299,036	11,624,655
Net assets released from restrictions	1,869	(1,869)	-	-
Total Support and Revenue and Investment and Other Income	12,262,550	1,036,486	13,299,036	11,624,655
EXPENSES				
Program Services				
Shelter and crisis care	1,608,613	-	1,608,613	1,210,915
Rights of Passage	1,166,317	-	1,166,317	1,060,822
Outreach	337,244	-	337,244	279,595
Public education and advocacy	220,399	-	220,399	226,114
Schools	7,048,542	-	7,048,542	8,400,946
Total Program Services	10,381,115	-	10,381,115	11,178,392
Supporting Services				
Management and general	911,535	-	911,535	628,945
Fundraising	311,603	-	311,603	323,555
Total Supporting Services	1,223,138	-	1,223,138	952,500
Total Expenses	11,604,253	-	11,604,253	12,130,892
Change in Net Assets	658,297	1,036,486	1,694,783	(506,237)
NET ASSETS				
Beginning of year	12,026,106	153,227	12,179,333	12,685,570
End of year	\$ 12,684,403	\$ 1,189,713	\$ 13,874,116	\$ 12,179,333

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statement of Functional Expenses
Year Ended June 30, 2017
(with summarized totals for year ended June 30, 2016)

	Program Services					Total Program Services	Supporting Services		Cost of Direct Benefits To Donors	2016 Total Expenses	
	Shelter and Crisis Care	Rights of Passage	Outreach	Public Education and Advocacy	Schools		Management and General	Fundraising			Total
Salaries and wages	\$ 769,125	\$ 636,206	\$ 201,841	\$ 141,358	\$ 4,359,609	\$ 6,108,139	\$ 287,166	\$ 201,009	\$ -	\$ 6,596,314	\$ 6,728,910
Payroll taxes	62,710	52,074	16,732	10,601	262,386	404,503	18,878	15,258	-	438,639	506,308
Employee benefits	173,820	129,502	45,387	21,524	888,898	1,259,131	137,694	39,898	-	1,436,723	1,443,093
Total Salaries and Related Expenses	1,005,655	817,782	263,960	173,483	5,510,893	7,771,773	443,738	256,165	-	8,471,676	8,678,311
Faith community costs	-	-	-	-	-	-	-	-	-	-	11,551
Accounting fees	-	-	-	-	85,500	85,500	34,000	-	-	119,500	170,479
Legal fees	413	5,748	206	1,238	1,196	8,801	1,005	825	-	10,631	35,007
Medical fees	28,731	17,171	254	-	-	46,156	-	-	-	46,156	44,882
Consulting fees	26,888	1,350	-	10,349	-	38,587	-	17,883	-	56,470	63,943
Supplies	18,172	14,446	2,282	890	167,873	203,663	8,405	749	-	212,817	436,076
Telephone	3,095	2,487	821	765	33,888	41,056	3,866	722	-	45,644	66,103
Postage and printing	1,036	157	492	17,569	7,667	26,921	1,359	16,224	-	44,504	42,995
Occupancy:											
Fuel and utilities	42,304	35,695	5,600	959	180,765	265,323	12,081	1,901	-	279,305	284,098
Repairs and maintenance	22,451	9,307	1,182	91	109,476	142,507	3,148	-	-	145,655	153,856
Rent and other	-	-	-	-	-	-	1,869	-	-	1,869	1,989
Equipment	22,580	10,315	986	262	27,156	61,299	17,758	100	-	79,157	120,550
Travel and transportation	12,951	13,483	6,205	1,400	92,235	126,274	3,368	1,704	-	131,346	128,328
Specific Assistance to Individuals:											
Food	76,917	51,441	961	-	5	129,324	-	-	-	129,324	123,726
Medical	80	-	-	-	-	80	-	-	-	80	225
Clothing, allowance and other	21,097	9,229	459	-	11,234	42,019	250,008	-	-	292,027	87,549
Contributed clothing and merchandise	71,728	38,984	12,995	-	-	123,707	-	-	-	123,707	43,694
Temporary help	863	791	234	-	202	2,090	865	-	-	2,955	3,581
Other purchased services	86,442	62,067	31,472	5,721	446,153	631,855	87,149	4,318	122,774	846,096	1,083,901
Dues, licenses and permits	1,486	1,456	170	123	3,293	6,528	771	113	-	7,412	12,639
Subscriptions and publications	21	21	11	98	11	162	123	77	-	362	978
Staff recruitment	44	77	-	-	2,630	2,751	712	-	-	3,463	12,356
Insurance	30,880	23,325	5,745	1,846	104,754	166,550	10,051	3,009	-	179,610	205,839
Contributed services	70,144	27,474	-	-	-	97,618	-	-	-	97,618	55,552
Miscellaneous	3,384	3,797	902	2,395	32,273	42,751	5,609	2,643	-	51,003	71,316
Bank charges and fees	39	944	13	2,795	5,251	9,042	4,554	5,170	-	18,766	16,050
Interest	-	-	-	-	31,265	31,265	-	-	-	31,265	7,439
	1,547,401	1,147,547	334,950	219,984	6,853,720	10,103,602	890,439	311,603	122,774	11,428,418	11,963,013
Depreciation and amortization	61,212	18,770	2,294	415	194,822	277,513	21,096	-	-	298,609	272,430
Total Functional Expenses	1,608,613	1,166,317	337,244	220,399	7,048,542	10,381,115	911,535	311,603	122,774	11,727,027	12,235,443
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	(122,774)	(122,774)	(104,551)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,608,613	\$ 1,166,317	\$ 337,244	\$ 220,399	\$ 7,048,542	\$ 10,381,115	\$ 911,535	\$ 311,603	\$ -	\$ 11,604,253	\$ 12,130,892

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statement of Cash Flows Year Ended June 30, 2017 (with comparative amounts for year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,694,783	\$ (506,237)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	298,609	272,430
Unrealized gains on investments	(202,586)	(16,173)
Net realized loss on sales of investments	1,985	-
Contributions restricted for long-term purposes	(993,052)	-
Donated securities	(64,937)	-
Net change in operating assets and liabilities		
Receivables	112,402	(62,971)
Prepaid expenses and other assets	(107,893)	134,965
Accounts payable and accrued expenses	(4)	108,150
Due from related parties	(532,331)	(2,302)
Due to Parent	-	(5,627)
Deferred compensation	-	(101,998)
Deferred revenue	66,704	37,735
Net Cash from Operating Activities	273,680	(142,028)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,002,855)	(1,000,000)
Proceeds from sales of donated securities	62,952	-
Proceeds from sales of investments	-	1,823,703
Purchase of property and equipment	(105,170)	(203,781)
Net Cash from Investing Activities	(2,045,073)	619,922
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions restricted for long-term purposes	993,052	-
Change in Cash and Cash Equivalents	(778,341)	477,894
CASH AND CASH EQUIVALENTS		
Beginning of year	4,785,809	4,307,915
End of year	\$ 4,007,468	\$ 4,785,809
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 31,265	\$ 7,439

See notes to consolidated financial statements

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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 80,000 and 47,000 runaway, homeless and at-risks youths during fiscal 2017 and 2016 (unaudited). The increase from 2016 to 2017 is due to the inclusion of the public education and prevention programs.

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 746 and 823 (unaudited) students during the years ended June 30, 2017 and 2016.

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, 2017 and 2016

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, 2017 and 2016

1. Organization and Nature of Operations (continued)

Components of Program and Supporting Services (continued)

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.

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, 2017 and 2016

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 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, 2017 and 2016

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 \$221,325 and \$99,246 for the years ended June 30, 2017 and 2016. Of these non-monetary transactions, \$123,707 and \$43,694 was recorded as in-kind donations for clothing and household supplies received for the programs for the years ended June 30, 2017 and 2016. For the years ended June 30, 2017 and 2016, \$97,618 and \$55,552 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 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, 2017 and 2016

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 impairments 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, 2016 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 financial statements as of and for the year ended June 30, 2016, from which the summarized comparative information was derived.

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$49,243 and \$36,000 for the years ended June 30, 2017 and 2016.

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, 2014.

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 4, 2017.

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, 2017 and 2016 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, 2017 and 2016.

4. Property and Equipment

Property and equipment consist of the following at June 30:

	2017	2016
Buildings	\$ 6,149,429	\$ 6,149,429
Site improvements	1,001,705	1,001,705
Furniture and equipment	628,639	628,639
Construction in progress	105,170	-
	<u>7,884,943</u>	<u>7,779,773</u>
Accumulated depreciation and amortization	<u>(3,047,898)</u>	<u>(2,749,289)</u>
	4,837,045	5,030,484
Land	216,000	216,000
	<u>\$ 5,053,045</u>	<u>\$ 5,246,484</u>

Depreciation and amortization expense was \$298,609 and \$272,430 for the years ended June 30, 2017 and 2016.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2017 and 2016

5. Investments

Investments at June 30, 2017 and 2016 consist of certificates of deposit at cost, 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:

	2017	2016
Mutual funds	\$ 1,652,503	\$ 306,103
Exchange traded and closed-end funds	1,487,082	301,558
Certificates of deposit	80,969	407,452
	\$ 3,220,554	\$ 1,015,113

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

	2017	2016
Realized and unrealized gains on investments	\$ 200,601	\$ 16,173
Act 18 interdistrict revenue	50,366	64,415
Rent revenue	4,875	55,376
Other income	101,187	127,254
	\$ 357,029	\$ 263,218

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 \$50,975 and \$49,771 for the years ended June 30, 2017 and 2016.

Future minimum lease payments under non-cancelable leases at June 30, 2017, are as follow for the years ending June 30:

2018	\$ 41,282
2019	18,891
2020	13,726
2021	13,726
2022	13,726
Thereafter	3,431
	\$ 104,782

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

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2017 and 2016

6. Commitments and Contingencies (*continued*)

Operating Leases (continued)

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 \$680,905 and \$657,055 for years ended June 30, 2017 and 2016.

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, 2017 and 2016 temporarily restricted net assets of \$151,358 and \$153,227 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, 2017 and 2016. Additionally, at June 30, 2017, there were temporarily restricted net assets in the amount of \$1,038,355 for the purpose of constructing a new crisis center. This amount is included in cash and cash equivalents.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2017 and 2016

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 \$66.0 million and \$64.3 million for the Parent in years ended June 30, 2017 and 2016. 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 \$36.0 million and \$33.6 million for the years ended June 30, 2017 and 2016. In fiscal 2017 and 2016, the Organization received \$877,000 and \$887,000 in contributions from the Parent. Additionally, in fiscal 2017 and 2016, the Organization received \$237,292 and \$192,692 from the Parent relating to national sleep out events.

At June 30, 2017 and 2016, the Organization had receivables from related parties amounting to \$1,703,713 and \$1,171,382 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 \$100,008 and \$93,920 for the years ended June 30, 2017 and 2016. Additionally in 2017 and 2016, the Organization made a contribution in the amount of \$34,000 and \$0 to the Defined Benefit Pension Plan of Covenant House, Inc. which is a maintained by the Parent.

10. Grants and Contracts

CHM was awarded a cost-reimbursable City of Detroit Block Grant. As of June 30, 2017 and 2016, the Organization has recorded a receivable of \$99,931 and \$68,850 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, 2017 and 2016, the Organization has recorded a receivable of \$116,967 and \$85,443 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, 2017 and 2016, the Organization has recorded a receivable of \$13,530 and \$137,472

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2017 and 2016

10. Grants and Contracts (continued)

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, 2017, 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.

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Covenant House Michigan

Supplementary Information

June 30, 2017

Covenant House Michigan

Consolidating Schedules of Financial Position
(with summarized totals at June 30, 2016)

	June 30, 2017			Total	2016
	CHM	YVS	Eliminations		Total
ASSETS					
Cash and cash equivalents	\$ 3,119,712	\$ 887,756	\$ -	\$ 4,007,468	\$ 4,785,809
Investments	3,220,554	-	-	3,220,554	1,015,113
Receivables	463,686	30,130	-	493,816	606,218
Due from related parties	94,309	1,653,713	(44,309)	1,703,713	1,171,382
Prepaid expenses and other assets	8,899	125,389	-	134,288	26,395
Property and equipment, net	4,827,522	225,523	-	5,053,045	5,246,484
	<u>\$ 11,734,682</u>	<u>\$ 2,922,511</u>	<u>\$ (44,309)</u>	<u>\$ 14,612,884</u>	<u>\$ 12,851,401</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 346,032	\$ 297,606	\$ (44,309)	\$ 599,329	\$ 599,333
Deferred revenue	139,439	-	-	139,439	72,735
Total Liabilities	<u>485,471</u>	<u>297,606</u>	<u>(44,309)</u>	<u>738,768</u>	<u>672,068</u>
Net Assets					
Unrestricted	5,231,976	2,399,382	-	7,631,358	6,779,622
Investment in property and equipment	4,827,522	225,523	-	5,053,045	5,246,484
Total Unrestricted	10,059,498	2,624,905	-	12,684,403	12,026,106
Temporarily restricted	1,189,713	-	-	1,189,713	153,227
Total Net Assets	<u>11,249,211</u>	<u>2,624,905</u>	<u>-</u>	<u>13,874,116</u>	<u>12,179,333</u>
	<u>\$ 11,734,682</u>	<u>\$ 2,922,511</u>	<u>\$ (44,309)</u>	<u>\$ 14,612,884</u>	<u>\$ 12,851,401</u>

Covenant House Michigan

Consolidating Schedules of Activities
(with summarized totals for year ended June 30, 2016)

	Year Ended June 30, 2017						2016 Total
	CHM		YVS		Eliminations	Total	
	Unrestricted	Temporarily Restricted	Unrestricted	Sub-total			
SUPPORT AND REVENUE							
Contributions	\$ 1,040,546	\$ 1,038,355	\$ -	\$ 2,078,901	\$ -	\$ 2,078,901	\$ 1,350,383
Government grants	680,905	-	-	680,905	-	680,905	657,055
Branding dollars from Parent	877,000	-	-	877,000	-	877,000	887,000
Grants from Parent related to national sleep out event	237,292	-	-	237,292	-	237,292	192,692
Special events, net	403,415	-	-	403,415	-	403,415	405,374
Contributed services, merchandise, and public service announcements	221,325	-	-	221,325	-	221,325	99,246
Total Support and Revenue	<u>3,460,483</u>	<u>1,038,355</u>	<u>-</u>	<u>4,498,838</u>	<u>-</u>	<u>4,498,838</u>	<u>3,591,750</u>
INVESTMENT AND OTHER INCOME							
Interest income	27,383	-	1,500	28,883	-	28,883	30,305
Management fee income	-	-	8,414,286	8,414,286	-	8,414,286	7,739,382
Other income	<u>1,132,592</u>	<u>-</u>	<u>158,185</u>	<u>1,290,777</u>	<u>(933,748)</u>	<u>357,029</u>	<u>263,218</u>
Total Investment and Other Income	<u>1,159,975</u>	<u>-</u>	<u>8,573,971</u>	<u>9,733,946</u>	<u>(933,748)</u>	<u>8,800,198</u>	<u>8,032,905</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	4,620,458	1,038,355	8,573,971	14,232,784	(933,748)	13,299,036	11,624,655
Net assets released from restrictions	<u>1,869</u>	<u>(1,869)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>4,622,327</u>	<u>1,036,486</u>	<u>8,573,971</u>	<u>14,232,784</u>	<u>(933,748)</u>	<u>13,299,036</u>	<u>11,624,655</u>
EXPENSES							
Program Services							
Shelter and crisis care	1,608,613	-	-	1,608,613	-	1,608,613	1,210,915
Rights of Passage	1,166,317	-	-	1,166,317	-	1,166,317	1,060,822
Outreach	337,244	-	-	337,244	-	337,244	279,595
Public education and advocacy	220,399	-	-	220,399	-	220,399	226,114
Schools	<u>231,565</u>	<u>-</u>	<u>7,750,725</u>	<u>7,982,290</u>	<u>(933,748)</u>	<u>7,048,542</u>	<u>8,400,946</u>
Total Program Services	<u>3,564,138</u>	<u>-</u>	<u>7,750,725</u>	<u>11,314,863</u>	<u>(933,748)</u>	<u>10,381,115</u>	<u>11,178,392</u>
Supporting Services							
Management and general	911,535	-	-	911,535	-	911,535	628,945
Fundraising	<u>311,603</u>	<u>-</u>	<u>-</u>	<u>311,603</u>	<u>-</u>	<u>311,603</u>	<u>323,555</u>
Total Supporting Services	<u>1,223,138</u>	<u>-</u>	<u>-</u>	<u>1,223,138</u>	<u>-</u>	<u>1,223,138</u>	<u>952,500</u>
Total Expenses	<u>4,787,276</u>	<u>-</u>	<u>7,750,725</u>	<u>12,538,001</u>	<u>(933,748)</u>	<u>11,604,253</u>	<u>12,130,892</u>
Change in Net Assets	(164,949)	1,036,486	823,246	1,694,783	-	1,694,783	(506,237)
NET ASSETS							
Beginning of year	<u>10,223,368</u>	<u>153,227</u>	<u>1,802,738</u>	<u>12,179,333</u>	<u>-</u>	<u>12,179,333</u>	<u>12,685,570</u>
End of year	<u>\$ 10,058,419</u>	<u>\$ 1,189,713</u>	<u>\$ 2,625,984</u>	<u>\$ 13,874,116</u>	<u>\$ -</u>	<u>\$ 13,874,116</u>	<u>\$ 12,179,333</u>

See independent auditors' report