

# **Covenant House Michigan**

Consolidated Financial Statements

and Supplementary Information  
June 30, 2020

## Independent Auditors' Report

### **Board of Directors Covenant House Michigan**

We have audited the accompanying consolidated financial statements of Covenant House Michigan, which comprise the consolidated statement of financial position as of June 30, 2020, 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 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, 2020 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, 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 6, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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 22 and 23 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 9, 2020

## Covenant House Michigan

Consolidated Statement of Financial Position  
June 30, 2020  
(with comparative amounts at June 30, 2019)

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,417,418	\$ 2,261,565
Investments	4,790,677	4,611,955
Receivables	677,650	758,567
Due from related parties	1,662,026	1,801,501
Prepaid expenses and other assets	114,436	57,973
Restricted cash	200,000	200,000
Property and equipment, net	9,178,687	8,619,659
	\$ 20,040,894	\$ 18,311,220
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 703,542	\$ 606,709
Paycheck protection program loans	1,692,173	-
Conditional advances	407,664	329,653
Total Liabilities	2,803,379	936,362
Net Assets		
Without donor restrictions	7,448,387	8,007,579
Investment in property and equipment	9,178,687	8,619,659
Total Without Donor Restrictions	16,627,074	16,627,238
With donor restrictions	610,441	747,620
Total Net Assets	17,237,515	17,374,858
	\$ 20,040,894	\$ 18,311,220

See notes to consolidated financial statements

**Covenant House Michigan**

Consolidated Statement of Activities  
Year Ended June 30, 2020  
(with summarized totals for year ended June 30, 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,912,156	\$ 64,690	\$ 1,976,846	\$ 2,435,712
Government grants	661,284	-	661,284	601,715
Private foundations grants	219,489	-	219,489	113,259
Branding dollars from Parent	906,605	-	906,605	673,000
Grants from Parent related to national sleep out events	239,988	-	239,988	157,506
Special events, net of direct benefits to donors of \$14,758 and \$157,564	296,230	-	296,230	240,271
Contributed services, merchandise, and public service announcements	59,974	-	59,974	88,466
Total Support and Revenue	<u>4,295,726</u>	<u>64,690</u>	<u>4,360,416</u>	<u>4,309,929</u>
<b>INVESTMENT AND OTHER INCOME</b>				
Interest income	12,613	-	12,613	11,117
Management fee income	8,323,205	-	8,323,205	8,635,153
Other income	208,868	-	208,868	308,555
Total Investment and Other Income	<u>8,544,686</u>	<u>-</u>	<u>8,544,686</u>	<u>8,954,825</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	12,840,412	64,690	12,905,102	13,264,754
Net assets released from restrictions	<u>201,869</u>	<u>(201,869)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>13,042,281</u>	<u>(137,179)</u>	<u>12,905,102</u>	<u>13,264,754</u>
<b>EXPENSES</b>				
Program Services				
Shelter and crisis care	2,431,725	-	2,431,725	2,026,790
Rights of Passage	937,701	-	937,701	1,030,003
Outreach	291,461	-	291,461	315,950
Medical	188,144	-	188,144	103,108
Public education and advocacy	115,965	-	115,965	159,106
Schools	7,757,554	-	7,757,554	7,790,339
Total Program Services	<u>11,722,550</u>	<u>-</u>	<u>11,722,550</u>	<u>11,425,296</u>
Supporting Services				
Management and general	735,319	-	735,319	902,353
Fundraising	584,576	-	584,576	469,706
Total Supporting Services	<u>1,319,895</u>	<u>-</u>	<u>1,319,895</u>	<u>1,372,059</u>
Total Expenses	<u>13,042,445</u>	<u>-</u>	<u>13,042,445</u>	<u>12,797,355</u>
Change in Net Assets	(164)	(137,179)	(137,343)	467,399
<b>NET ASSETS</b>				
Beginning of year	<u>16,627,238</u>	<u>747,620</u>	<u>17,374,858</u>	<u>16,907,459</u>
End of year	<u>\$ 16,627,074</u>	<u>\$ 610,441</u>	<u>\$ 17,237,515</u>	<u>\$ 17,374,858</u>

See notes to consolidated financial statements

**Covenant House Michigan**

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2020  
(with summarized totals for year ended June 30, 2019)

	Program Services							Supporting Services		Cost of Direct Benefits To Donors	2019 Total Expenses	
	Shelter and Crisis Care	Rights of Passage	Outreach	Medical	Public Education and Advocacy	Schools	Total	Management and General	Fundraising			Total
Salaries and wages	\$ 1,254,551	\$ 592,635	\$ 203,609	\$ 71,682	\$ 70,256	\$ 4,618,211	\$ 6,810,944	\$ 364,879	\$ 392,267	\$ -	\$ 7,568,090	\$ 7,347,977
Payroll taxes	95,333	44,668	15,775	5,474	4,945	299,883	466,078	28,576	28,132	-	522,786	481,318
Employee benefits	249,480	54,413	33,130	11,622	14,858	1,014,598	1,378,101	150,993	61,267	-	1,590,361	1,718,275
Total Salaries and Related Expenses	1,599,364	691,716	252,514	88,778	90,059	5,932,692	8,655,123	544,448	481,666	-	9,681,237	9,547,570
Accounting fees	17,874	6,793	2,145	3,933	-	28,023	58,768	5,005	-	-	63,773	51,620
Legal fees	-	-	-	-	-	25,850	25,850	-	-	-	25,850	50,648
Medical fees	-	-	-	-	-	-	-	-	-	-	-	1,909
Consulting fees	-	-	-	-	6,137	-	6,137	-	6,138	-	12,275	49,135
Supplies	18,157	10,175	2,111	382	398	433,347	464,570	4,694	1,049	-	470,313	442,047
Telephone	3,488	4,910	1,684	1,989	194	72,024	84,289	1,688	780	-	86,757	92,155
Postage and printing	147	42	11	-	10,389	4,368	14,957	2,759	27,688	-	45,404	62,216
Occupancy												
Fuel and utilities	63,957	35,354	3,696	2,250	1,144	198,463	304,864	7,396	8,664	-	320,924	308,860
Repairs and maintenance	28,346	18,737	2,410	1,810	362	87,032	138,697	3,829	1,448	-	143,974	117,354
Rent and other	-	-	-	-	-	-	-	1,869	-	-	1,869	1,869
Equipment	10,326	6,921	407	384	57	77,179	95,274	16,072	230	-	111,576	96,026
Travel and transportation	1,740	5,398	5,259	172	55	49,171	61,795	746	508	-	63,049	90,201
Conferences and meetings	485	597	21	-	63	-	1,166	328	272	-	1,766	3,508
Specific Assistance to Individuals												
Food	135,915	45,009	339	63	-	-	181,326	-	-	-	181,326	154,550
Medical	40	-	-	-	-	-	40	-	-	-	40	177
Clothing, allowance and other	21,775	5,654	2,810	413	-	750	31,402	-	-	-	31,402	45,055
Contributed clothing and merchandise	35,984	23,990	-	-	-	-	59,974	-	-	-	59,974	88,466
Temporary help	1,852	1,235	-	-	-	-	3,087	-	-	-	3,087	3,948
Other purchased services	144,731	59,050	12,173	77,908	4,339	457,862	756,063	75,447	41,299	14,758	887,567	1,050,369
Dues, licenses and permits	4,671	1,112	144	209	135	6,952	13,223	1,012	540	-	14,775	10,490
Subscriptions and publications	469	43	43	32	328	-	915	697	1,418	-	3,030	2,348
Staff recruitment	714	120	12	-	-	2,246	3,092	2,030	-	-	5,122	2,696
Insurance	45,425	20,058	5,535	5,628	808	111,950	189,404	10,887	7,469	-	207,760	193,125
Miscellaneous	27,206	628	94	21	218	23,463	51,630	3,403	1,052	-	56,085	55,012
Bank charges and fees	-	-	-	-	1,279	3,900	5,179	16,864	4,355	-	26,398	45,963
Depreciation and amortization	2,162,666	937,542	291,408	183,972	115,965	7,515,272	11,206,825	699,174	584,576	14,758	12,505,333	12,567,317
	269,059	159	53	4,172	-	242,282	515,725	36,145	-	-	551,870	387,602
Total Functional Expenses	2,431,725	937,701	291,461	188,144	115,965	7,757,554	11,722,550	735,319	584,576	14,758	13,057,203	12,954,919
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(14,758)	(14,758)	(157,564)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,431,725	\$ 937,701	\$ 291,461	\$ 188,144	\$ 115,965	\$ 7,757,554	\$ 11,722,550	\$ 735,319	\$ 584,576	\$ -	\$ 13,042,445	\$ 12,797,355

## Covenant House Michigan

Consolidated Statement of Cash Flows  
Year Ended June 30, 2020  
(with comparative amounts for year ended June 30, 2019)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (137,343)	\$ 467,399
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	551,871	387,602
Net realized/unrealized gain on investments	(114,501)	(233,783)
Contributions for restricted purposes	(200,000)	(200,000)
Donated securities	(9,944)	(10,576)
Net change in operating assets and liabilities		
Receivables	80,917	321,029
Prepaid expenses and other assets	(56,463)	8,166
Due from related parties	139,475	(434,619)
Accounts payable and accrued expenses	96,833	13,653
Conditional advances	78,011	202,153
Net Cash from Operating Activities	428,856	521,024
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(275,000)	-
Proceeds from sales of investments	220,723	911,527
Purchase of property and equipment	(1,110,899)	(3,108,904)
Net Cash from Investing Activities	(1,165,176)	(2,197,377)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from paycheck protection program loans	1,692,173	-
Cash contributions for restricted purposes	200,000	200,000
Net Cash from Financing Activities	1,892,173	200,000
Change in Cash, Cash Equivalents and Restricted Cash	1,155,853	(1,476,353)
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Beginning of year	2,461,565	3,937,918
End of year	\$ 3,617,418	\$ 2,461,565
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Cash and cash equivalents	\$ 3,417,418	\$ 2,261,565
Restricted cash	200,000	200,000
	\$ 3,617,418	\$ 2,461,565

See notes to consolidated financial statements

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

### 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 50,000 and 74,000 young people during fiscal 2020 and 2019 (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 790 and 730 (unaudited) students during the years ended June 30, 2020 and 2019.

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, 2020

### 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 organizations 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, 2020

### 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.

#### ***Changes in Accounting Principle***

##### ***Cash and Restricted Cash***

In November 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires significant changes regarding how restricted cash is classified and presented on

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

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

#### ***Changes in Accounting Principle (continued)***

##### ***Cash and Restricted Cash (continued)***

the statement of cash flows. On June 1, 2019 the Organization adopted the new guidance regarding the presentation and classification of restricted cash. The guidance requires the Organization to 1) include restricted cash in the cash and cash equivalent balances on the statement of cash flows, 2) provide a reconciliation between the balance sheet and the statement of cash flows when more than one line item for cash and restricted cash is presented on the balance sheet, 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances. Adoption of the ASU resulted in a change in the accounting for restricted cash on the cash flows statement.

##### ***Revenue from Contracts with Customers***

Effective July 1, 2019, the Organization adopted ASU 2014-09, Revenue from Contracts with Customers, as amended. The guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the new guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework.

As shown on the accompanying statements of activities, the Organization has several revenue sources amongst which are the following: contributions, grants from the government and Parent, management fee income and special event related revenue. The Organization has reviewed its various revenue sources and concluded that each of its contracts include a single performance obligation that is satisfied either at a point in time or over time. Because performance obligations rarely span beyond the fiscal year all such obligations are satisfied by the fiscal year end.

Analysis of various provisions of this standard resulted in no changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

The new guidance requires the Organization to not recognize revenue until it is probable of collection and, based on the Organization's strong collection experience, management has concluded that all revenue recognized is probable of collection.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

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

#### ***Changes in Accounting Principle (continued)***

##### ***Recognition of Contributions***

Effective July 1, 2019, the Organization adopted ASU 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes grants and contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. Adoption of ASU 2018-08 had no impact on the Organization's consolidated financial statements.

##### ***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.

##### ***Conditional Advances***

Conditional advances represent amounts received by the Organization which pertain to programs and services of the following fiscal year.

##### ***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.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

### 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 \$59,974 and \$88,466 for the years ended June 30, 2020 and 2019. Of these non-monetary transactions, \$59,974 and \$88,466 was recorded as in-kind donations for clothing and household supplies received for the programs for the years ended June 30, 2020 and 2019.

#### ***Fundraising***

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

#### ***Cash, Cash Equivalents and Restricted Cash***

Cash, cash equivalents, and restricted cash include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase. Restricted cash consists principally of cash held for building improvements as required by the grant agreements.

#### ***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.

#### ***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.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

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

#### ***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 inclusive of expected renewals or their estimated useful lives.

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

Information as of and for the year ended June 30, 2019 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, 2019, from which the summarized comparative information was derived.

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

Advertising costs are expensed as incurred. Advertising expense was \$12,275 and \$46,862 for the years ended June 30, 2020 and 2019.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

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

#### ***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, 2017.

#### ***Reclassifications***

Certain items in the 2019 financial statements have been reclassified for comparative purposes.

### 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, 2020, 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, 2020

#### 4. Liquidity and Availability of Financial Assets

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

	<u>2020</u>	<u>2019</u>
Financial Assets		
Cash and cash equivalents	\$ 3,417,418	\$ 2,261,565
Receivables	677,650	758,567
Investments	<u>4,790,677</u>	<u>4,611,955</u>
 Total Financial Assets	 8,885,745	 7,632,087
 Less Those Unavailable for General Expenditure Within One Year, Due to:		
Restricted by donor with time or purpose restrictions	<u>200,000</u>	<u>400,000</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 8,685,745</u>	<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, 2020 and 2019 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, 2020 and 2019.



## Covenant House Michigan

### Notes to Consolidated Financial Statements June 30, 2020

#### 6. Property and Equipment

Property and equipment consist of the following at June 30 (Note 14):

	2020	2019
Buildings	\$ 10,157,212	\$ 10,157,212
Building and site improvements	1,963,538	1,054,509
Furniture and equipment	1,066,843	887,528
Vehicles	69,423	44,423
	13,257,016	12,143,672
Accumulated depreciation and amortization	(4,294,329)	(3,742,458)
	8,962,687	8,401,214
Construction-in-progress	-	2,445
Land	216,000	216,000
	\$ 9,178,687	\$ 8,619,659

Depreciation and amortization expense was \$551,871 and \$387,602 for the years ended June 30, 2020 and 2019.

#### 7. Investments

Investments at June 30, 2020 and 2019 consist of money market funds 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:

	2020	2019
Mutual funds	\$ 3,029,537	\$ 3,057,605
Exchange traded and closed-end funds	911,060	1,193,961
Money market funds, at cost	850,080	360,389
	\$ 4,790,677	\$ 4,611,955

The components of other income consist of the following for the years ended June 30, 2020 and 2019:

	2020	2019
Realized and unrealized gains on investments	\$ 114,501	\$ 233,783
Rent revenue	60,195	54,286
Other income	34,172	20,486
	\$ 208,868	\$ 308,555

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

### 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 April 2025. Rental expense under all operating leases amounted to \$64,137 and \$49,608 for the years ended June 30, 2020 and 2019.

Future minimum lease payments under non-cancelable leases at June 30, 2020, are as follow for the years ending June 30:

2021	\$ 30,186
2022	22,179
2023	16,460
2024	14,339
2025	<u>9,618</u>
	<u>\$ 92,782</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 (medical), 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 June 25, 2020 through June 30, 2025.

CHM also entered into a lease with CHA-Detroit for its Southwest Campus for a building effective June 25, 2020 through June 30, 2025.

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 \$661,284 and \$601,715 for years ended June 30, 2020 and 2019.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

### 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, 2020 and 2019 net assets with donor restrictions of \$145,751 and \$147,620 were time restricted. Additionally, at June 30, 2020 and 2019, there were net assets with donor restrictions in the amount of \$464,690 and \$600,000 for the purpose of site improvements and constructing a new crisis center. At June 30, 2020 and 2019, \$200,000 and \$200,000 were recorded as restricted cash and \$264,690 and \$400,000 were included in receivables in the consolidated statement of financial position and these receivables are expected to be collected in less than one year. Net assets of \$201,869 and \$1,851,260 were released from restriction by satisfying the restricted purpose for the years ended June 30, 2020 and 2019.

### 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 \$87.7 and \$66.0 million for the Parent during the years ended June 30, 2020 and 2019. 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 \$37.9 and \$34.0 million for the years ended June 30, 2020 and 2019. In fiscal 2020 and 2019, the Organization received \$906,605 and \$673,000 in contributions from the Parent. Additionally, in fiscal 2020 and 2019, the Organization received \$239,988 and \$157,506 from the Parent relating to national sleep out events.

At June 30, 2020 and 2019, YVS had receivables from related parties amounting to \$1,662,026 and \$1,801,501 relating to management fees.

### 11. Employee Benefit Plans

The Parent adopted a defined contribution 403(b) savings and retirement plan (the "403(b) Plan"), effective January 1, 2007. All CHM's 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

## Covenant House Michigan

### Notes to Consolidated Financial Statements June 30, 2020

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

savings and retirement account will be 100% vested after three years of service. CHM's expense related to the 403(b) Plan was \$61,024 and \$91,348 for the years ended June 30, 2020 and 2019.

CHM 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 2020 and 2019, the Organization contributed \$103,767 and \$62,307 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expenses.

YVS has a defined contribution 403(b) Thrift Plan (the "Thrift Plan"), effective May 1, 2012. All eligible employees as defined in the Thrift Plan are eligible to participate after having attained the age of 21, completing twelve months of consecutive service and 1,000 hours of service. The Thrift Plan provides for matching contributions equal to 50% of the participant's contribution, to the extent that the participants' contribution does not exceed 6% of their compensation. YVS's expense related to the Thrift Plan was \$48,877 and \$15,793 for the years ended June 30, 2020 and 2019.

#### 12. Grants and Contracts

CHM was awarded a cost-reimbursable City of Detroit Block Grant. As of June 30, 2020 and 2019, the Organization has recorded a receivable of \$1,062 and \$64,797 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, 2020 and 2019, the Organization has recorded a receivable of \$91,269 and \$56,415 from the City of Detroit representing services performed under this award.

CHM was awarded a cost-reimbursable Salvation Army Grant. As of June 30, 2020 and 2019 the Organization has recorded a receivable of \$14,238 and \$19,908 representing services performed under this award.

CHM was awarded a cost-reimbursable ACYF Transitional Living Program Grant. As of June 30, 2020 and 2019, the Organization has recorded a receivable of \$50,707 and \$13,272 representing services performed under this award.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

### 12. Grants and Contracts *(continued)*

CHM was awarded a cost-reimbursable ACYF Outreach Grant. As of June 30, 2020 and 2019, the Organization has recorded a receivable of \$10,022 and \$9,850 representing services performed under this award.

CHM was awarded a cost-reimbursable UWSEM-EFSP Grant. As of June 30, 2020 and 2019, the Organization has recorded a receivable of \$18,000 and \$0 representing services performed under this award.

### 13. Paycheck Protection Program Loans

On April 16, 2020 and May 21, 2020, CHM and YVS received loans proceeds in the amounts of \$501,973 and \$1,190,200, respectively, totaling \$1,692,173 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loans bear an interest rate of 1% per annum. All or a portion of the PPP loans' principal and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). The amount of loans forgiveness could be reduced if the borrower terminates employees or reduces salaries above a certain threshold during the Covered Period and does not qualify for certain safe harbors. Although, the Organization believes these loans will be substantially or fully forgiven, there can be no guarantee that the United States Small Business Administration ("SBA") will approve the loans forgiveness. The unforgiven portion of the PPP loans, if any, is payable within two to five years from the date of the PPP loans with a deferral of payments of principal or interest until the amount of loans forgiveness is determined by the SBA. If the Organization does not apply for forgiveness, payments begin approximately 16 months after the loans dates. As of June 30, 2020, the PPP loans are recognized as a debt on the consolidated statement of financial position. The Organization will recognize the income from the forgiveness of the PPP loans when it receives the notification of forgiveness from the SBA in accordance with Accounting Standards Codification 470 Debt.

### 14. Subsequent Events

#### *Sale of Property*

At June 30, 2020, CHM had a building and related building improvements with a net book value of \$159,893 that was sold on August 25, 2020. The net proceeds from the sale were \$814,867 which resulted in a gain of \$654,974.

#### *COVID-19*

Subsequent to year end, the Organization's operations and financial performance may be affected by the recent coronavirus outbreak which has been spreading globally, and continues

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2020

### 14. Subsequent Events *(continued)*

#### ***COVID-19 (continued)***

to adversely affect economic conditions throughout the world. If the outbreak continues and conditions become worse, the Organization may experience a disruption in operations as well as a decline in contributions received or level of contributions. The outbreak may adversely affect the Organization's business, financial conditions and results of operations on an interim basis.

#### ***Evaluation by Management***

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 9, 2020.

\* \* \* \* \*

**Covenant House Michigan**

Supplementary Information

June 30, 2020

**Covenant House Michigan**

Consolidating Schedule of Financial Position  
(with summarized totals at June 30, 2019)

	June 30, 2020			Total	2019 Total
	CHM	YVS	Eliminations		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 776,312	\$ 2,641,106	\$ -	\$ 3,417,418	\$ 2,261,565
Investments	4,790,677	-	-	4,790,677	4,611,955
Receivables	673,988	3,662	-	677,650	758,567
Due from related parties	99,949	1,662,026	(99,949)	1,662,026	1,801,501
Prepaid expenses and other assets	75,244	39,192	-	114,436	57,973
Restricted cash	200,000	-	-	200,000	200,000
Property and equipment, net	8,736,510	442,177	-	9,178,687	8,619,659
	<u>\$ 15,352,680</u>	<u>\$ 4,788,163</u>	<u>\$ (99,949)</u>	<u>\$ 20,040,894</u>	<u>\$ 18,311,220</u>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities					
Accounts payable and accrued expenses	\$ 356,249	\$ 447,242	\$ (99,949)	\$ 703,542	\$ 606,709
Paycheck protection program loans	501,973	1,190,200	-	1,692,173	-
Conditional advances	407,664	-	-	407,664	329,653
	<u>1,265,886</u>	<u>1,637,442</u>	<u>(99,949)</u>	<u>2,803,379</u>	<u>936,362</u>
Net Assets					
Without donor restrictions	4,739,843	2,708,544	-	7,448,387	8,007,579
Investment in property and equipment	8,736,510	442,177	-	9,178,687	8,619,659
	<u>13,476,353</u>	<u>3,150,721</u>	<u>-</u>	<u>16,627,074</u>	<u>16,627,238</u>
With donor restrictions	610,441	-	-	610,441	747,620
	<u>14,086,794</u>	<u>3,150,721</u>	<u>-</u>	<u>17,237,515</u>	<u>17,374,858</u>
	<u>\$ 15,352,680</u>	<u>\$ 4,788,163</u>	<u>\$ (99,949)</u>	<u>\$ 20,040,894</u>	<u>\$ 18,311,220</u>



**Covenant House Michigan**

Consolidating Schedule of Activities  
(with summarized totals for year ended June 30, 2019)

	Year Ended June 30, 2020						2019 Total
	CHM		YVS			Total	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	Sub-total	Eliminations		
<b>SUPPORT AND REVENUE</b>							
Contributions	\$ 1,912,156	\$ 64,690	\$ -	\$ 1,976,846	\$ -	\$ 1,976,846	\$ 2,435,712
Government grants	661,284	-	-	661,284	-	661,284	601,715
Private foundations grants	219,489	-	-	219,489	-	219,489	113,259
Branding dollars from Parent	906,605	-	-	906,605	-	906,605	673,000
Grants from Parent related to national sleep out events	239,988	-	-	239,988	-	239,988	157,506
Special events, net	296,230	-	-	296,230	-	296,230	240,271
Contributed services, merchandise, and public service announcements	59,974	-	-	59,974	-	59,974	88,466
Total Support and Revenue	<u>4,295,726</u>	<u>64,690</u>	<u>-</u>	<u>4,360,416</u>	<u>-</u>	<u>4,360,416</u>	<u>4,309,929</u>
<b>INVESTMENT AND OTHER INCOME</b>							
Interest income	1,986	-	10,627	12,613	-	12,613	11,117
Management fee income	-	-	8,323,205	8,323,205	-	8,323,205	8,635,153
Other income	1,099,211	-	81,877	1,181,088	(972,220)	208,868	308,555
Total Investment and Other Income	<u>1,101,197</u>	<u>-</u>	<u>8,415,709</u>	<u>9,516,906</u>	<u>(972,220)</u>	<u>8,544,686</u>	<u>8,954,825</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	5,396,923	64,690	8,415,709	13,877,322	(972,220)	12,905,102	13,264,754
Net assets released from restrictions	<u>201,869</u>	<u>(201,869)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>5,598,792</u>	<u>(137,179)</u>	<u>8,415,709</u>	<u>13,877,322</u>	<u>(972,220)</u>	<u>12,905,102</u>	<u>13,264,754</u>
<b>EXPENSES</b>							
Program Services							
Shelter and crisis care	2,431,725	-	-	2,431,725	-	2,431,725	2,026,790
Rights of Passage	937,701	-	-	937,701	-	937,701	1,030,003
Outreach	291,461	-	-	291,461	-	291,461	315,950
Medical	188,144	-	-	188,144	-	188,144	103,108
Public education and advocacy	115,965	-	-	115,965	-	115,965	159,106
Schools	182,465	-	8,547,309	8,729,774	(972,220)	7,757,554	7,790,339
Total Program Services	<u>4,147,461</u>	<u>-</u>	<u>8,547,309</u>	<u>12,694,770</u>	<u>(972,220)</u>	<u>11,722,550</u>	<u>11,425,296</u>
Supporting Services							
Management and general	735,319	-	-	735,319	-	735,319	902,353
Fundraising	584,576	-	-	584,576	-	584,576	469,706
Total Supporting Services	<u>1,319,895</u>	<u>-</u>	<u>-</u>	<u>1,319,895</u>	<u>-</u>	<u>1,319,895</u>	<u>1,372,059</u>
Total Expenses	<u>5,467,356</u>	<u>-</u>	<u>8,547,309</u>	<u>14,014,665</u>	<u>(972,220)</u>	<u>13,042,445</u>	<u>12,797,355</u>
Change in Net Assets	131,436	(137,179)	(131,600)	(137,343)	-	(137,343)	467,399
<b>NET ASSETS</b>							
Beginning 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>
End of year	<u>\$ 13,476,353</u>	<u>\$ 610,441</u>	<u>\$ 3,150,721</u>	<u>\$ 17,237,515</u>	<u>\$ -</u>	<u>\$ 17,237,515</u>	<u>\$ 17,374,858</u>

See independent auditors' report