

# **Covenant House Michigan**

Consolidated Financial Statements and  
Uniform Guidance Schedules  
Together with Independent Auditors' Reports

June 30, 2021

## Covenant House Michigan

### Consolidated Financial Statements and Uniform Guidance Schedules Together With Independent Auditors' Reports

June 30, 2021

<b>TABLE OF CONTENTS</b>	<b>Page</b>
Independent Auditors' Report	
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-20
<b>SUPPLEMENTARY INFORMATION</b>	
Consolidating Schedule of Financial Position	21
Consolidating Schedule of Activities	22
<b>UNIFORM GUIDANCE SCHEDULES AND REPORTS</b>	
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	
Schedule of Findings and Questioned Costs	30-31
Exhibit A – Corrective Action Plan	

## Independent Auditors' Report

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Covenant House Michigan, which comprise the consolidated statement of financial position as of June 30, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2021, 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.

***Other Matters***

***Report on Summarized Comparative Information***

We have previously audited the Covenant House Michigan's June 30, 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 21 and 22 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2022 on our consideration of Covenant House Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Covenant House Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covenant House Michigan's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

January 24, 2022

## Covenant House Michigan

Consolidated Statement of Financial Position  
June 30, 2021  
(with comparative amounts at June 30, 2020)

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,284,713	\$ 3,417,418
Investments	6,519,289	4,790,677
Receivables	556,160	677,650
Due from related parties	1,675,454	1,662,026
Prepaid expenses and other assets	206,775	114,436
Restricted cash	-	200,000
Property and equipment, net	<u>8,749,679</u>	<u>9,178,687</u>
	<u>\$ 20,992,070</u>	<u>\$ 20,040,894</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 814,164	\$ 703,542
Paycheck protection program loans	-	1,692,173
Conditional advances	<u>202,724</u>	<u>407,664</u>
Total Liabilities	<u>1,016,888</u>	<u>2,803,379</u>
Net Assets		
Without donor restrictions	11,081,621	7,448,387
Investment in property and equipment	<u>8,749,679</u>	<u>9,178,687</u>
Total Without Donor Restrictions	19,831,300	16,627,074
With donor restrictions	<u>143,882</u>	<u>610,441</u>
Total Net Assets	<u>19,975,182</u>	<u>17,237,515</u>
	<u>\$ 20,992,070</u>	<u>\$ 20,040,894</u>

See notes to consolidated financial statements

## Covenant House Michigan

Consolidated Statement of Activities  
Year Ended June 30, 2021  
(with summarized totals for year ended June 30, 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,711,125	\$ -	\$ 1,711,125	\$ 1,976,846
Government grants	949,454	-	949,454	661,284
Private foundations grants	495,045	-	495,045	219,489
Branding dollars from Parent	637,723	-	637,723	906,605
Grants from Parent related to national sleep out events	202,958	-	202,958	239,988
Special events, net of direct benefits to donors of \$17,265 and \$14,758	347,330	-	347,330	296,230
Contributed services and merchandise	43,596	-	43,596	59,974
Total Support and Revenue	<u>4,387,231</u>	<u>-</u>	<u>4,387,231</u>	<u>4,360,416</u>
<b>INVESTMENT AND OTHER INCOME</b>				
Interest income	8,909	-	8,909	12,613
Management fee income	6,417,511	-	6,417,511	8,323,205
Paycheck protection program loan forgiveness	1,692,173	-	1,692,173	-
Gain on sale of building	655,474	-	655,474	-
Other income	1,207,702	-	1,207,702	208,868
Total Investment and Other Income	<u>9,981,769</u>	<u>-</u>	<u>9,981,769</u>	<u>8,544,686</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	14,369,000	-	14,369,000	12,905,102
Net assets released from restrictions	<u>466,559</u>	<u>(466,559)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>14,835,559</u>	<u>(466,559)</u>	<u>14,369,000</u>	<u>12,905,102</u>
<b>EXPENSES</b>				
Program Services				
Shelter and crisis care	2,580,182	-	2,580,182	2,431,725
Rights of Passage	1,149,051	-	1,149,051	937,701
Outreach	355,078	-	355,078	291,461
Medical	246,307	-	246,307	188,144
Public education and advocacy	123,826	-	123,826	115,965
Schools	5,742,813	-	5,742,813	7,757,554
Total Program Services	<u>10,197,257</u>	<u>-</u>	<u>10,197,257</u>	<u>11,722,550</u>
Supporting Services				
Management and general	901,797	-	901,797	735,319
Fundraising	532,279	-	532,279	584,576
Total Supporting Services	<u>1,434,076</u>	<u>-</u>	<u>1,434,076</u>	<u>1,319,895</u>
Total Expenses	<u>11,631,333</u>	<u>-</u>	<u>11,631,333</u>	<u>13,042,445</u>
Change in Net Assets	3,204,226	(466,559)	2,737,667	(137,343)
<b>NET ASSETS</b>				
Beginning of year	<u>16,627,074</u>	<u>610,441</u>	<u>17,237,515</u>	<u>17,374,858</u>
End of year	<u>\$ 19,831,300</u>	<u>\$ 143,882</u>	<u>\$ 19,975,182</u>	<u>\$ 17,237,515</u>

See notes to consolidated financial statements

**Covenant House Michigan**  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2021  
(with summarized totals for year ended June 30, 2020)

	Program Services							Supporting Services		Cost of Direct Benefits To Donors	Total	2020 Total Expenses
	Short-term Housing and Crisis Care	Transitional Living and Rights of Passage	Outreach	Medical	Public Education and Advocacy	Schools	Total	Management and General	Fundraising			
Salaries and wages	\$ 1,437,606	\$ 689,093	\$ 231,628	\$ 76,217	\$ 76,585	\$ 2,617,931	\$ 5,129,060	\$ 360,877	\$ 306,340	\$ -	\$ 5,796,277	\$ 7,568,090
Payroll taxes	110,003	51,662	17,290	6,104	5,493	215,447	405,999	16,050	21,970	-	444,019	522,786
Employee benefits	218,874	129,293	37,356	5,282	17,442	511,579	919,826	197,649	69,766	-	1,187,241	1,590,361
Total Salaries and Related Expenses	1,766,483	870,048	286,274	87,603	99,520	3,344,957	6,454,885	574,576	398,076	-	7,427,537	9,681,237
Accounting fees	18,775	7,135	2,253	4,130	-	31,003	63,296	5,257	-	-	68,553	63,773
Legal fees	-	-	-	-	-	20,072	20,072	1,143	-	-	21,215	25,850
Consulting fees	-	-	-	-	-	-	-	-	-	-	-	12,275
Supplies	23,505	13,898	2,894	1,004	239	172,017	213,557	15,247	958	-	229,762	470,313
Telephone	16,378	4,887	2,259	2,032	407	38,005	63,968	1,417	2,033	-	67,418	86,757
Postage and printing	1,597	586	782	781	5,103	25,023	33,872	233	20,411	-	54,516	45,404
Occupancy												
Fuel and utilities	70,188	38,730	3,685	2,215	1,780	133,778	250,376	6,953	7,121	-	264,450	320,924
Repairs and maintenance	29,100	17,074	1,922	991	323	28,728	78,138	11,638	1,307	-	91,083	143,974
Rent and other	-	-	-	-	-	-	-	1,869	-	-	1,869	1,869
Equipment	19,055	6,384	1,361	875	195	357,827	385,697	20,375	780	-	406,852	111,576
Travel and transportation	3,703	5,724	5,242	138	24	1,784	16,615	323	95	-	17,033	63,049
Conferences and meetings	151	-	46	26	20	-	243	193	158	-	594	1,766
Specific Assistance to Individuals												
Food	137,558	22,135	599	545	88	-	160,925	1,228	351	-	162,504	181,326
Medical	1,703	54	12	-	12	-	1,781	96	49	-	1,926	40
Clothing, allowance and other	24,985	8,668	2,630	19,421	-	4,607	60,311	637	-	-	60,948	31,402
Contributed clothing and merchandise	26,635	16,961	-	-	-	-	43,596	-	-	-	43,596	59,974
Gratitot Project - donation and capital outlay	-	-	-	-	-	731,119	731,119	-	-	-	731,119	-
Temporary help	5,617	3,744	-	-	-	-	9,361	-	-	-	9,361	3,087
Other purchased services	233,954	89,575	25,198	123,660	13,240	418,284	903,911	46,956	81,000	17,265	1,049,132	887,567
Dues, licenses and permits	2,557	1,135	95	185	1,489	81,328	86,789	619	5,956	-	93,364	14,775
Subscriptions and publications	544	109	69	-	514	-	1,236	1,251	1,960	-	4,447	3,030
Staff recruitment	681	592	263	256	-	3,730	5,522	131	-	-	5,653	5,122
Insurance	55,190	15,886	9,284	2,340	872	94,354	177,926	17,591	3,494	-	199,011	207,760
Miscellaneous	-	-	-	-	-	42,566	42,566	-	-	-	42,566	56,085
Bank charges and fees	-	-	-	-	-	1,565	1,565	5,033	8,530	-	15,128	26,397
	2,438,359	1,123,325	344,868	246,202	123,826	5,530,747	9,807,327	712,766	532,279	17,265	11,069,637	12,505,332
Depreciation and amortization	141,823	25,726	10,210	105	-	212,066	389,930	189,031	-	-	578,961	551,871
Total Functional Expenses	2,580,182	1,149,051	355,078	246,307	123,826	5,742,813	10,197,257	901,797	532,279	17,265	11,648,598	13,057,203
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(17,265)	(17,265)	(14,758)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,580,182	\$ 1,149,051	\$ 355,078	\$ 246,307	\$ 123,826	\$ 5,742,813	\$ 10,197,257	\$ 901,797	\$ 532,279	\$ -	\$ 11,631,333	\$ 13,042,445

See notes to consolidated financial statements

## Covenant House Michigan

### Consolidated Statement of Cash Flows Year Ended June 30, 2021 (with comparative amounts for year ended June 30, 2020)

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,737,667	\$ (137,343)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	578,961	551,871
Gain on sale of property	(655,474)	-
Gain from paycheck protection program loan forgiveness	(1,692,173)	-
Net realized and unrealized gain on investments	(1,116,466)	(114,501)
Contributions for restricted purposes	(200,000)	(200,000)
Donated securities	(24,810)	(9,944)
Net change in operating assets and liabilities		
Receivables	121,490	80,917
Prepaid expenses and other assets	(92,339)	(56,463)
Due from related parties	(13,428)	139,475
Accounts payable and accrued expenses	110,622	96,833
Conditional advances	(204,940)	78,011
Net Cash from Operating Activities	(450,890)	428,856
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash proceeds from sale of property	815,367	-
Purchase of investments	(787,336)	(275,000)
Proceeds from sales of investments	200,000	220,723
Purchase of property and equipment	(309,846)	(1,110,899)
Net Cash from Investing Activities	(81,815)	(1,165,176)
<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	200,000	1,892,173
 Change in Cash, Cash Equivalents and Restricted Cash	(332,705)	1,155,853
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH COMPRISED OF</b>		
Beginning of year	3,617,418	2,461,565
End of year	\$ 3,284,713	\$ 3,617,418
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Cash and cash equivalents	\$ 3,284,713	\$ 3,417,418
Restricted cash	-	200,000
	\$ 3,284,713	\$ 3,617,418
<b>NON CASH FINANCING ACTIVITIES</b>		
Forgiveness of Paycheck Protection Program loan	\$ 1,692,173	\$ -

See notes to consolidated financial statements



## Covenant House Michigan

### Notes to Consolidated Financial Statements

June 30, 2021

#### 1. Organization and Nature of Operations

Covenant House Michigan ("CHM"), a not-for-profit organization which was founded in 1968 and incorporated in 1972 providing shelter and crisis care and outreach services to youth in the Detroit area. Covenant House (the "Parent") and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical and mental health care, crisis intervention, education and vocational services, public education and prevention and other programs that reached approximately 18,000 young people during fiscal year 2021. During fiscal 2021, the worldwide COVID-19 pandemic impacted the number of youth Covenant House reached, as affiliates took measures to ensure social distancing, set aside isolation rooms for symptomatic youth, paused in-person public education and prevention programs, and, throughout the year, suspended or modified street outreach. The pandemic impacted all operations, including food production (meal provision was nearly 75% higher than pre-pandemic levels); the creation of online opportunities for mental health care, education, and job readiness training; development of appropriate intake protocols; implementation of new cleaning and sanitizing protocols, and other measures, all of which drove up operating costs. Nevertheless, in fiscal 2021 Covenant House affiliates provided a total of nearly 690,000 nights of housing and safety for, on average, 1,883 youth each night.

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 694 and 790 (unaudited) students during the years ended June 30, 2021 and 2020.

Covenant House (Parent) is the sole member of the following not-for-profit affiliates:

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Illinois
- Covenant House Michigan
- 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 Michigan

Notes to Consolidated Financial Statements  
June 30, 2021

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

The Parent is also the sole member of Covenant International Foundation (“CIF”), a not-for-profit corporation. The Parent 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.

The Parent is the founder of Fundación Casa Alianza México, I.A.P.

CHM and YVS have been determined to be not-for-profit organizations exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code (“IRC”), except for income taxes pertaining to unrelated business income. CHM and YVS are also exempt from Michigan income and sales taxes. Both have been classified as publicly supported charitable 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***

*Short-term Housing and Crisis Care* – The short-term housing and crisis care program provides emergency services, temporary housing, food, clothing, medical care, mental health services, and legal aid for up to 30 young people in Detroit and 28 in Grand Rapids experiencing homelessness or human trafficking. Supportive services include case management, crisis counseling and ongoing counseling.

*Transitional Living - Rights of Passage* - CHM’s transitional living programs, often referred to as “Rights of Passage” or ROP, are where up to 30 young people take steps toward independence. Youth live in ROP for 18-24 months, where they tap their potential and plan for the future. Here they build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. The staff supports each young person on their journey toward sustainable independence and a hope-filled future.

*Outreach* - Street outreach teams actively seek out young people experiencing homelessness who may need help. The team assists with critical safety needs by providing transportation to a safe shelter. Young people living on the streets can receive food, water, hygiene kits, clothing, blankets, counseling, and referrals to services such as medical care, employment, and education services.

*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.

## Covenant House Michigan

Notes to Consolidated Financial Statements

June 30, 2021

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

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

*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 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 Prevention* - CHM uses a variety of platforms to inform and educate the public, government officials, and young people about youth homelessness and human trafficking. CHM employ websites, social media, public service announcements, billboards, newsletters, school-based programs, talks, lectures, and peer-to-peer events across Michigan to raise awareness of the causes and impacts of youth homelessness and of the signs that a young person might be experiencing homelessness or human trafficking.

*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.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2021

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

#### ***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.

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

The Organization follows the Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The guidance requires the Organization to 1) include restricted cash in the cash and cash equivalent balances on the consolidated statement of cash flows, 2) provide a reconciliation between the consolidated statement of financial position and the consolidated statement of cash flows when more than one line item for cash and restricted cash is presented on the consolidated statement of financial position 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances.

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

The Organization follows 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 revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the guidance. The core principle of the 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 consolidated statement 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 concluded that each of its contracts include a single performance obligation that is satisfied either at a point in time or over time. Except for the management fee income, the performance obligations rarely span beyond the fiscal year all such obligations are satisfied by the fiscal year end.

The management fee income is mostly derived from the State of Michigan, which utilizes a foundation grant approach, which provides for a specific annual amount per pupil on a statewide formula. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year ended June 30, 2021, the management fee income was based on the pupil membership counts taken in October and February 2020 and it is funded through payments from October 2020 to August 2021. For the year ended June 30, 2020, the management fee income was based on the pupil membership counts taken in October and February 2019 and it is funded through payments

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2021

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

#### ***Revenue from Contracts with Customers (continued)***

from October 2019 to August 2020. Any unpaid portion at year end is included in due from related parties.

The 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.

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

The Organization follows 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.

#### ***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 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. 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, 2021

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

#### ***Contributed Services and In-Kind Donations (continued)***

Total revenue from contributed services and merchandise was \$43,596 and \$59,974 for the years ended June 30, 2021 and 2020. These non-monetary transactions were recorded as in-kind donations for clothing and household supplies received for the programs for the years ended June 30, 2021 and 2020.

#### ***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 at June 30, 2020 consisted principally of cash held for building improvements as required by the grant agreements. There was no restricted cash at June 30, 2021.

#### ***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, 2021

### **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, 2020 is presented for comparative purposes only. Certain activity by net asset classification is not included in these consolidated 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, 2020, from which the summarized comparative information was derived.

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

Advertising costs are expensed as incurred. Advertising expense was \$14,350 and \$12,275 for the years ended June 30, 2021 and 2020.

#### ***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, 2018.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2021

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

#### ***Subsequent Events and Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the accompanying consolidated financial statements were available to be issued, which date is January 24, 2022.

### 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, 2021, 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.

### 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>2021</u>	<u>2020</u>
Financial Assets		
Cash and cash equivalents	\$ 3,284,713	\$3,417,418
Investments	6,519,289	4,790,677
Receivables	<u>556,160</u>	<u>677,650</u>
Total Financial Assets	10,360,162	8,885,745
Less Those Unavailable for General Expenditure Within One Year, Due to:		
Restricted by donor with time or purpose restrictions	<u>-</u>	<u>200,000</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 10,360,162</u>	<u>\$ 8,685,745</u>

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



## Covenant House Michigan

### Notes to Consolidated Financial Statements June 30, 2021

#### 5. Contributions and Pledges Receivable

Contributions, including unconditional promises to give, are reported as revenues in the period received. Unconditional promises to give that are due beyond one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized when the conditions upon which they depend have been substantially met.

All receivables as of June 30, 2021 and 2020 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, 2021 and 2020.

#### 6. Property and Equipment

Property and equipment consist of the following at June 30:

	2021	2020
Buildings	\$ 9,925,728	\$ 10,157,212
Building and site improvements	2,177,039	1,963,538
Furniture and equipment	1,082,121	1,066,843
Vehicles	114,864	69,423
	<u>13,299,753</u>	<u>13,257,016</u>
Accumulated depreciation and amortization	<u>(4,766,074)</u>	<u>(4,294,329)</u>
	8,533,679	8,962,687
Land	<u>216,000</u>	<u>216,000</u>
	<u>\$ 8,749,679</u>	<u>\$ 9,178,687</u>

Depreciation and amortization expense was \$578,961 and \$551,871 for the years ended June 30, 2021 and 2020.

#### 7. Investments

Investments at June 30, 2021 and 2020 consist of money market funds, 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:

	2021	2020
Mutual funds	\$ 4,574,630	\$ 3,029,537
Exchange traded and closed-end funds	1,112,964	911,060
Money market funds	<u>831,695</u>	<u>850,080</u>
	<u>\$ 6,519,289</u>	<u>\$ 4,790,677</u>

## Covenant House Michigan

### Notes to Consolidated Financial Statements June 30, 2021

#### 7. Investments (continued)

The components of other income consist of the following for the years ended June 30, 2021 and 2020:

	2021	2020
Realized and unrealized gains on investments	\$ 1,116,466	\$ 114,501
Rent revenue	86,631	60,195
Other income	4,605	34,172
	<u>\$ 1,207,702</u>	<u>\$ 208,868</u>

#### 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 2026. Rental expense under all operating leases amounted to \$63,370 and \$64,137 for the years ended June 30, 2021 and 2020.

Future minimum lease payments under non-cancelable leases at June 30, 2021, are as follows for the years ending June 30:

2022	\$ 22,179
2023	16,460
2024	14,339
2025	<u>9,618</u>
	<u>\$ 62,596</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.

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2021

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

#### ***Management Agreement***

Prior to July 1, 2020, YVS reported revenue on a gross basis. They received the state aid payments from the Michigan Department of Education and assumed the obligation for payment of the lease obligation on behalf of all the academies. Effective July 1, 2020, YVS will continue to report revenue on a gross basis for CHA - Detroit only as they receive the state aid payments from the Michigan Department of Education and assume the obligation for payment of the lease obligation on behalf of CHA - Detroit.

Effective July 1, 2020, YVS signed a management agreement with CHA – GR, which expires on June 30, 2025. According to the provisions of this agreement, CHA - GR will report all revenues received from the Michigan Department of Education and assume all the obligations for payments of all expenses. YVS will receive a management fee of 11% of the per pupil revenue that CHA – GR receives from all sources for the duration of this agreement for managing the day-to-day activities of CHA - GR.

All intercompany rental income, management fees and expenses between CHM and YVS are 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 \$896,262 and \$661,284 for years ended June 30, 2021 and 2020.

#### ***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, 2021 and 2020 net assets with donor restrictions of \$143,882 and \$145,751 were time restricted. Additionally, at June 30, 2021 and 2020, there were net assets with donor restrictions in the amount of \$0 and \$464,690 for the purpose of site improvements and constructing a new crisis center. At June 30, 2021 and 2020, \$0 and \$200,000 were recorded as restricted cash and \$0 and \$264,690 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 \$466,559 and \$201,869 were released from restriction by satisfying the restricted purpose for the years ended June 30, 2021 and 2020.

## Covenant House Michigan

### Notes to Consolidated Financial Statements

June 30, 2021

#### 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 \$84 million and \$88 million for the Parent during the years ended June 30, 2021 and 2020. 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 million and \$38 million for the years ended June 30, 2021 and 2020. In fiscal 2021 and 2020, the Organization received \$637,723 and \$906,605 in contributions from the Parent. Additionally, in fiscal 2021 and 2020, the Organization received \$202,958 and \$239,988 from the Parent relating to national sleep out events.

At June 30, 2021 and 2020, YVS had receivables from related parties amounting to \$1,675,454 and \$1,662,026 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 savings and retirement account will be 100% vested after three years of service. CHM's expense related to the 403(b) Plan was \$146,644 and \$61,024 for the years ended June 30, 2021 and 2020.

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 2021 and 2020, the Organization contributed \$70,662 and \$103,767 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the consolidated 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.

## Covenant House Michigan

### Notes to Consolidated Financial Statements June 30, 2021

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

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 \$41,715 and \$48,877 for the years ended June 30, 2021 and 2020.

#### 12. Grants and Contracts

CHM was awarded a cost-reimbursable City of Detroit Block Grant. As of June 30, 2021 and 2020, the Organization has recorded a receivable of \$6,806 and \$1,062 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, 2021 and 2020, the Organization has recorded a receivable of \$117,274 and \$91,269 from the City of Detroit representing services performed under this award.

CHM was awarded a cost-reimbursable Salvation Army Grant. As of June 30, 2021 and 2020 the Organization has recorded a receivable of \$23,005 and \$14,238 representing services performed under this award.

CHM was awarded a cost-reimbursable ACYF Transitional Living Program Grant. As of June 30, 2021 and 2020, the Organization has recorded a receivable of \$83,226 and \$50,707 representing services performed under this award.

CHM was awarded a cost-reimbursable ACYF Outreach Grant. As of June 30, 2021 and 2020, the Organization has recorded a receivable of \$72,146 and \$10,022 representing services performed under this award.

CHM was awarded a cost-reimbursable UWSEM-EFSP Grant. As of June 30, 2021 and 2020, the Organization has recorded a receivable of \$0 and \$18,000 representing services performed under this award.

In fiscal 2021, CHM was awarded a cost-reimbursable City of Detroit Grant in the amount of \$18,718 which was fully utilized during the year. There were no receivables related to this grant at June 30, 2021 and 2020.

#### 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").

## Covenant House Michigan

Notes to Consolidated Financial Statements  
June 30, 2021

### 13. Paycheck Protection Program Loans (*continued*)

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.

On April 22, 2021 and January 11, 2021, CHM and YVS received confirmation from the United States Small Business Administration that \$501,973 and \$1,190,200 of the PPP loans plus accrued interest were forgiven. Accordingly, the Organization is recognizing these amounts as income from paycheck protection program loan forgiveness in 2021.

### 14. COVID-19

The Organization's operations have been significantly affected by the recent and ongoing outbreak of the coronavirus disease ("COVID-19"), which was declared a pandemic by the World Health Organization in March 2020. Many countries around the world, including the United States, have significant governmental measures being implemented to control the spread of COVID-19, including temporary closures of businesses, severe restrictions on travel and the movement of people and other material limitations on the conduct of business.

The full duration and extent of the COVID-19 pandemic, related business and travel restrictions and changes to behavior intended to reduce its spread are uncertain as of the date these consolidated financial statements were available for issuance, as the pandemic continues to evolve globally. Therefore, the full extent of any adverse impact on the results of operations, financial position and cash flows in fiscal 2022 cannot be reasonably estimated at this time.

\* \* \* \* \*

# **Covenant House Michigan**

Supplementary Information

June 30, 2021

**Covenant House Michigan**

Consolidating Schedule of Financial Position  
June 30, 2021  
(with summarized totals at June 30, 2020)

	2021			Total	2020 Total
	CHM	YVS	Eliminations		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 345,440	\$ 2,939,273	\$ -	\$ 3,284,713	\$ 3,417,418
Investments	6,519,289	-	-	6,519,289	4,790,677
Receivables	551,033	5,127	-	556,160	677,650
Due from related parties	27,465	1,675,454	(27,465)	1,675,454	1,662,026
Prepaid expenses and other assets	13,650	193,125	-	206,775	114,436
Restricted cash	-	-	-	-	200,000
Property and equipment, net	8,419,269	330,410	-	8,749,679	9,178,687
	<u>\$ 15,876,146</u>	<u>\$ 5,143,389</u>	<u>\$ (27,465)</u>	<u>\$ 20,992,070</u>	<u>\$ 20,040,894</u>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities					
Accounts payable and accrued expenses	\$ 453,721	\$ 387,908	\$ (27,465)	\$ 814,164	\$ 703,542
Paycheck protection program loans	-	-	-	-	1,692,173
Conditional advances	202,724	-	-	202,724	407,664
	<u>656,445</u>	<u>387,908</u>	<u>(27,465)</u>	<u>1,016,888</u>	<u>2,803,379</u>
Net Assets					
Without donor restrictions	6,656,550	4,425,071	-	11,081,621	7,448,387
Investment in property and equipment	8,419,269	330,410	-	8,749,679	9,178,687
	<u>15,075,819</u>	<u>4,755,481</u>	<u>-</u>	<u>19,831,300</u>	<u>16,627,074</u>
With donor restrictions	143,882	-	-	143,882	610,441
	<u>15,219,701</u>	<u>4,755,481</u>	<u>-</u>	<u>19,975,182</u>	<u>17,237,515</u>
	<u>\$ 15,876,146</u>	<u>\$ 5,143,389</u>	<u>\$ (27,465)</u>	<u>\$ 20,992,070</u>	<u>\$ 20,040,894</u>

See independent auditors' report



**Covenant House Michigan**

Consolidating Schedule of Activities

Year Ended June 30, 2021

(with summarized totals for year ended June 30, 2020)

	2021						2020 Total	
	CHM		YVS		Sub-total	Eliminations		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions					
<b>SUPPORT AND REVENUE</b>								
Contributions	\$ 1,711,125	\$ -	\$ -	\$ 1,711,125	\$ -	\$ 1,711,125	\$ 1,976,846	
Government grants	949,454	-	-	949,454	-	949,454	661,284	
Private foundations grants	495,045	-	-	495,045	-	495,045	219,489	
Branding dollars from Parent	637,723	-	-	637,723	-	637,723	906,605	
Grants from Parent related to national sleep out events	202,958	-	-	202,958	-	202,958	239,988	
Special events, net	347,330	-	-	347,330	-	347,330	296,230	
Contributed services and merchandise	43,596	-	-	43,596	-	43,596	59,974	
<b>Total Support and Revenue</b>	<b>4,387,231</b>	<b>-</b>	<b>-</b>	<b>4,387,231</b>	<b>-</b>	<b>4,387,231</b>	<b>4,360,416</b>	
<b>INVESTMENT AND OTHER INCOME</b>								
Interest income	5,265	-	3,644	8,909	-	8,909	12,613	
Management fee income	-	-	6,417,511	6,417,511	-	6,417,511	8,323,205	
Paycheck protection program loan forgiveness	501,973	-	1,190,200	1,692,173	-	1,692,173	-	
Gain on sale of building	655,474	-	-	655,474	-	655,474	-	
Other income	1,653,516	-	86,630	1,740,146	(532,444)	1,207,702	208,868	
<b>Total Investment and Other Income</b>	<b>2,816,228</b>	<b>-</b>	<b>7,697,985</b>	<b>10,514,213</b>	<b>(532,444)</b>	<b>9,981,769</b>	<b>8,544,686</b>	
<b>Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions</b>	<b>7,203,459</b>	<b>-</b>	<b>7,697,985</b>	<b>14,901,444</b>	<b>(532,444)</b>	<b>14,369,000</b>	<b>12,905,102</b>	
Net assets released from restrictions	466,559	(466,559)	-	-	-	-	-	
<b>Total Support and Revenue and Investment and Other Income</b>	<b>7,670,018</b>	<b>(466,559)</b>	<b>7,697,985</b>	<b>14,901,444</b>	<b>(532,444)</b>	<b>14,369,000</b>	<b>12,905,102</b>	
<b>EXPENSES</b>								
<b>Program Services</b>								
Shelter and crisis care	2,580,182	-	-	2,580,182	-	2,580,182	2,431,725	
Rights of Passage	1,149,051	-	-	1,149,051	-	1,149,051	937,701	
Outreach	355,078	-	-	355,078	-	355,078	291,461	
Medical	246,307	-	-	246,307	-	246,307	188,144	
Public education and advocacy	123,826	-	-	123,826	-	123,826	115,965	
Schools	182,032	-	6,093,225	6,275,257	(532,444)	5,742,813	7,757,554	
<b>Total Program Services</b>	<b>4,636,476</b>	<b>-</b>	<b>6,093,225</b>	<b>10,729,701</b>	<b>(532,444)</b>	<b>10,197,257</b>	<b>11,722,550</b>	
<b>Supporting Services</b>								
Management and general	901,797	-	-	901,797	-	901,797	735,319	
Fundraising	532,279	-	-	532,279	-	532,279	584,576	
<b>Total Supporting Services</b>	<b>1,434,076</b>	<b>-</b>	<b>-</b>	<b>1,434,076</b>	<b>-</b>	<b>1,434,076</b>	<b>1,319,895</b>	
<b>Total Expenses</b>	<b>6,070,552</b>	<b>-</b>	<b>6,093,225</b>	<b>12,163,777</b>	<b>(532,444)</b>	<b>11,631,333</b>	<b>13,042,445</b>	
Change in Net Assets	1,599,466	(466,559)	1,604,760	2,737,667	-	2,737,667	(137,343)	
<b>NET ASSETS</b>								
Beginning of year	13,476,353	610,441	3,150,721	17,237,515	-	17,237,515	17,374,858	
End of year	\$ 15,075,819	\$ 143,882	\$ 4,755,481	\$ 19,975,182	\$ -	\$ 19,975,182	\$ 17,237,515	

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# **Covenant House Michigan**

Uniform Guidance Schedules and Reports

June 30, 2021

**Covenant House Michigan**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development:				
Community Development Block Grants/Entitlement Grants (CDGB- Entitlement Grants Cluster):				
Pass-through from City of Detroit-Department of Housing and Revitalization	6003288	14.218	\$ -	\$ 18,676
Pass-through from City of Detroit-Department of Housing and Revitalization	6002516	14.218	-	63,301
Total Community Development Block Grants/Entitlement Grants (CDGB- Entitlement Grants Cluster)			-	81,977
Emergency Solutions Grant Program				
Pass-through from City of Detroit-Department of Housing and Revitalization	6002516	14.231	-	15,495
Pass-through from City of Detroit-Department of Housing and Revitalization	6003288	14.231	-	40,285
Pass-through from City of Detroit-Department of Housing and Revitalization - COVID-19	6003288 / SPO 3050191	14.231	-	41,042
Pass-through from City of Detroit-Department of Housing and Revitalization - COVID-19	6003288 / SPO 3047778	14.231	-	65,119
Total Emergency Solutions Grant Program			-	161,941
Total U.S. Department of Housing and Urban Development			-	243,918
U.S. Department of Health and Human Services:				
Temporary Assistance for Needy Families (TANF)				
Pass-through from Michigan Department of Human Services Salvation Army-Eastern District	20200194	93.558	-	7,506
Transitional Living for Homeless Youth		93.550	-	37,693
Transitional Living for Homeless Youth		93.550	-	143,502
Total Transitional Living for Homeless Youth			-	181,195
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth		93.557	-	26,695
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth		93.557	-	119,431
Total Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth			-	146,126
Total U.S. Department of Health and Human Services			-	334,827
Department of the Homeland Security:				
Emergency Food and Shelter National Board Program				
Pass-through from United Way for SE Michigan	484400-221	97.024	-	40,000
Pass-through from United Way Kent County	472400-036	97.024	-	13,192
Pass-through from United Way for SE Michigan City of Detroit	SPO 3046516	97.024	-	18,719
Total Department of the Homeland Security			-	71,911
Department of the Treasury:				
Coronavirus Relief Fund				
Pass-through from Kent County	CRF-NPA-0188	21.019	-	115,000
Pass-through from Wayne County	38-335-1777	21.019	-	10,000
Total Department of the Treasury			-	125,000
Total Expenditures of Federal Awards			\$ -	\$ 775,656

See independent auditors' report and notes to schedule of expenditures of federal awards

## Covenant House Michigan

### Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2021

#### 1. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Covenant House Michigan (the "Organization") under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not represent the financial position, changes in net assets or cash flows of the Organization.

#### 2. **Summary of Significant Account Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

#### 3. **Nonmonetary Assistance**

Nonmonetary assistance is reported in the Schedule based on the amount disbursed or received. The Organization received no non-monetary assistance for the year ended June 30, 2021.

#### 4. **Indirect Cost Rate**

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

**Independent Auditors' Report**

**Board of Directors  
Covenant House Michigan**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Covenant House Michigan (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2021, 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, and have issued our report thereon dated January 24, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

January 24, 2022

**Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

**Independent Auditors' Report**

**Board of Directors  
Covenant House Michigan**

**Report on Compliance for Each Major Federal Program**

We have audited Covenant House Michigan's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2021. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Covenant House Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

### **Report on Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be significant deficiencies.



The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance***

We have audited the consolidated financial statements of the Organization as of and for the year ended June 30, 2021, and have issued our report thereon dated January 24, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Uniform Guidance, is presented for purposes of additional analysis and is 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*

March 3, 2022

**Covenant House Michigan**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2021

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes   X   no

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiency(ies) identified?   X   yes \_\_\_\_\_ none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?   X   yes \_\_\_\_\_ no

Identification of major federal and state programs:

<b><u>CFDA Number:</u></b>	<b><u>Name of Federal Program or Cluster:</u></b>
14.218	U.S. Department of Housing and Urban Development: Community Development Block Grants/Entitlement Grants (CDGB– Entitlement Grants Cluster)
93.550	U.S. Department of Health and Human Services: Transitional Living for Homeless Youth
93.557	Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth

Dollar threshold used to distinguish between Type A and Type B programs: Federal \$750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes   X   no

**Section II - Financial Statement Findings**

During our audit, we noted no material findings for the year ended June 30, 2021.

## Covenant House Michigan

Schedule of Findings and Questioned Costs (*continued*)  
Year Ended June 30, 2021

### **Section III - Federal Award Findings and Questioned Costs**

#### **2021-001: Reporting**

**CFDA Number:** 93.550 and 93.557

**Name of Program or Cluster:** Temporary Assistance for Needy Families (TANF) and Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth

**Agency:** U.S. Department of Health and Human Services

#### **Criteria, Condition and Context**

Under the terms of the federal programs above, the Organization is required to submit a semi-annual federal financial report (Form SF-425) within 30 days of the end of the report period end date. The Organization submitted semi-annual federal financial reports for both programs after the due date.

#### **Cause**

The Organization experienced technological issues with submitting the semi-annual reports and submitted them several months late.

#### **Effect**

Failure to submit the semi-annual reports in a timely manner causes the Organization to be noncompliant with the grant agreement which could affect future funding.

#### **Recommendation**

We recommend the Organization enhance the policies and procedures to properly oversee and submit the reporting requirements in a timely manner.

#### **Views of Responsible Official and Planned Corrective Actions**

See Corrective Action Plan attached.

### **Section IV – Prior Year Findings**

There were no findings in the prior year.



**Gerald J. Piro**  
Executive Director

**Board Members**

Kellie Ray, Chair  
Plante Moran

Victoria Burton-Harris  
Washtenaw County

Jeffrey L. Connolly  
Blue Cross Blue  
Shield of Michigan

Matthew E. Cox  
Spectrum Health

Veronica Davis  
Quicken Loans

Tiffany Ellis  
Weitz & Luxenberg

Anne Lehker, MSW

Mark A. Manzo  
Ally Financial

Sr. Therese  
Mac Kinnon, D.C.  
Corpus Christi Parish

Kimberly Comer  
Mulqueen  
Deloitte (Ret.)

Eric R. Pricco  
Delta Air Lines

Jeffrey P. Rumley  
Blue Cross Blue Shield  
of Michigan (Ret.)

Nicole Scheffler  
VMware

Terence Thomas  
Thomas Group  
Consulting

Dan Wiggins  
Cisco

March 3, 2022

Included below is Covenant House Michigan's corrective action plan (CAP) to the findings identified in the single audit financial statements.

**Finding 2021-001 Reporting**

To address the finding of untimely reporting of the FY 2021 semi-annual federal financial report (SF 425) the Finance Director and Executive Director will work together to develop a tracking template and oversight process to ensure timely filing of federal reports.

Respectively submitted,

Barbara Small  
Director of Finance



Commitment to  
our youth and  
their journey



Commitment to the  
values that unite  
our community



Commitment to  
making an impact  
and inspiring change

Covenant House Michigan  
is a registered 501(c)(3) nonprofit  
organization, EIN 38-3351777