

Covenant House Michigan

Consolidated Financial Statements and
OMB Circular A-133 Financial Report
Together With Independent Auditors' Report

June 30, 2015 and 2014

Covenant House Michigan

Consolidated Financial Statements
June 30, 2015 and 2014

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Independent Auditors' Report

**Board of Directors
Covenant House Michigan**

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Covenant House Michigan (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

Board of Directors
Covenant House Michigan

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covenant House Michigan as of June 30, 2015 and the 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.

Prior Period Financial Statements

The consolidated financial statements of the Organization as of June 30, 2014, were audited by other auditors whose report dated November 5, 2014, expressed an unmodified opinion on those statements.

Other Matters

Report on Supplementary Information

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 supplementary 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 November 19, 2015, on our consideration of the Organization'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 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 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 the Organization's internal control over financial reporting and compliance.

O'Connor Davies, LLP

New York, New York
November 19, 2015

Covenant House Michigan

Consolidated Statements of Financial Position

	June 30,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 4,307,915	\$ 2,815,867
Investments	1,822,643	1,796,709
Receivables	543,247	272,219
Due from Parent	-	1,466
Due from related parties	1,169,080	1,060,247
Deferred rent	-	155,096
Prepaid expenses and other assets	161,360	220,812
Property and equipment, net	5,315,133	5,366,450
	\$ 13,319,378	\$ 11,688,866
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 491,183	\$ 492,774
Deferred compensation	101,998	374,972
Lease payable	-	3,049
Due to Parent	5,627	-
Deferred revenue	35,000	49,800
Total Liabilities	633,808	920,595
Net Assets		
Unrestricted		
Board-designated	1,500,000	1,500,000
Undesignated	5,715,341	3,744,856
Investment in property and equipment, net	5,315,133	5,366,450
Total Unrestricted	12,530,474	10,611,306
Temporarily restricted	155,096	156,965
Total Net Assets	12,685,570	10,768,271
	\$ 13,319,378	\$ 11,688,866

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statements of Activities

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 1,448,031	\$ -	\$ 1,448,031	\$ 1,427,995	\$ -	\$ 1,427,995
Government grants	615,294	-	615,294	582,469	-	582,469
Branding dollars from Parent	972,000	-	972,000	972,000	-	972,000
Special events, net of direct benefits to donors of \$42,396 and \$52,993	387,869	-	387,869	202,842	-	202,842
Contributed services, merchandise, and public service announcements	227,549	-	227,549	235,951	-	235,951
Net assets released from restrictions	1,869	(1,869)	-	1,869	(1,869)	-
Total Support and Revenue	<u>3,652,612</u>	<u>(1,869)</u>	<u>3,650,743</u>	<u>3,423,126</u>	<u>(1,869)</u>	<u>3,421,257</u>
INVESTMENT AND OTHER INCOME						
Investment income						
Interest income	21,133	-	21,133	21,709	-	21,709
Realized and unrealized gains	-	-	-	2,344	-	2,344
Management fee income	9,148,273	-	9,148,273	8,401,625	-	8,401,625
Other income	449,906	-	449,906	5,448	-	5,448
Total Investment and Other Income	<u>9,619,312</u>	<u>-</u>	<u>9,619,312</u>	<u>8,431,126</u>	<u>-</u>	<u>8,431,126</u>
Total Support, Revenue, Investment and Other Income	<u>13,271,924</u>	<u>(1,869)</u>	<u>13,270,055</u>	<u>11,854,252</u>	<u>(1,869)</u>	<u>11,852,383</u>
EXPENSES						
Program Services						
Shelter and crisis care	1,367,500	-	1,367,500	1,385,933	-	1,385,933
Rights of passage	1,127,291	-	1,127,291	1,133,078	-	1,133,078
Outreach	311,372	-	311,372	305,904	-	305,904
Public education and advocacy	342,121	-	342,121	328,088	-	328,088
Schools	7,666,993	-	7,666,993	7,212,964	-	7,212,964
Total Program Service	<u>10,815,277</u>	<u>-</u>	<u>10,815,277</u>	<u>10,365,967</u>	<u>-</u>	<u>10,365,967</u>
Supporting Services						
Management and general	343,219	-	343,219	333,783	-	333,783
Fundraising	194,260	-	194,260	186,100	-	186,100
Total Supporting Services	<u>537,479</u>	<u>-</u>	<u>537,479</u>	<u>519,883</u>	<u>-</u>	<u>519,883</u>
Total Expenses	<u>11,352,756</u>	<u>-</u>	<u>11,352,756</u>	<u>10,885,850</u>	<u>-</u>	<u>10,885,850</u>
Change in Net Assets	1,919,168	(1,869)	1,917,299	968,402	(1,869)	966,533
NET ASSETS						
Beginning of year	<u>10,611,306</u>	<u>156,965</u>	<u>10,768,271</u>	<u>9,642,904</u>	<u>158,834</u>	<u>9,801,738</u>
End of year	<u>\$ 12,530,474</u>	<u>\$ 155,096</u>	<u>\$ 12,685,570</u>	<u>\$ 10,611,306</u>	<u>\$ 156,965</u>	<u>\$ 10,768,271</u>

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services						Supporting Services			Total
	Shelter and Crisis Care	Rights of Passage	Outreach	Public Education and Advocacy	Schools	Total Program Services	Management and General	Fundraising	Cost of Direct Benefits To Donors	
Salaries and wages	\$ 674,843	\$ 589,795	\$ 186,149	\$ 167,997	\$ 4,331,220	\$ 5,950,004	\$ 176,933	\$ 104,303	\$ -	\$ 6,231,240
Payroll taxes	56,781	49,625	15,663	14,135	359,477	495,681	14,887	8,776	-	519,344
Employee benefits	139,733	122,123	38,544	34,785	718,654	1,053,839	36,636	21,597	-	1,112,072
Total Salaries and Related Expenses	871,357	761,543	240,356	216,917	5,409,351	7,499,524	228,456	134,676	-	7,862,656
Faith community costs	250	250	-	-	-	500	-	-	-	500
Contributed public service announcements	-	-	-	29,700	43,296	72,996	-	9,900	-	82,896
Accounting fees	-	-	-	-	36,601	36,601	45,882	-	-	82,483
Legal fees	5,069	5,042	2,481	-	66,946	79,538	7,401	4,853	-	91,792
Medical fees	26,821	17,881	-	9,707	-	54,409	-	-	-	54,409
Consulting fees	10,906	10,906	2,240	24,601	345,794	394,447	11,504	17,306	-	423,257
Supplies	23,750	23,388	3,292	2,279	325,515	378,224	2,995	824	-	382,043
Telephone	3,067	2,808	899	1,001	44,542	52,317	433	392	-	53,142
Postage and printing	2,778	2,802	141	30,620	270	36,611	144	11,637	-	48,392
Occupancy:										
Fuel and utilities	54,009	39,118	3,939	1,170	231,200	329,436	662	585	-	330,683
Repairs and maintenance	7,807	7,797	2,228	-	276,038	293,870	2,228	-	-	296,098
Rent and other	561	561	93	187	280	1,682	93	93	-	1,868
Equipment	12,712	11,687	2,102	488	45,295	72,284	7,334	234	-	79,852
Travel and transportation	11,985	11,978	5,778	2,201	55,913	87,855	2,335	1,040	-	91,230
Specific assistance to individuals:										
Food	72,714	49,545	2,032	-	7,457	131,748	136	-	-	131,884
Medical	170	44	16	-	-	230	-	-	-	230
Clothing, allowance and other	7,665	9,541	2,572	-	-	19,778	-	-	-	19,778
Contributed clothing and merchandise	47,960	23,981	7,994	-	-	79,935	-	-	-	79,935
Temporary help	3,389	3,389	968	-	968	8,714	968	-	-	9,682
Other purchased services	88,960	64,091	16,294	10,436	213,080	392,861	27,160	4,812	42,396	467,229
Dues, licenses and permits	2,243	2,243	643	138	185,680	190,947	652	49	-	191,648
Subscriptions and publications	49	46	19	38	57	209	37	19	-	265
Staff recruitment	1,515	1,346	419	324	486	4,090	750	162	-	5,002
Insurance	22,241	19,407	3,023	892	155,559	201,122	528	446	-	202,096
Contributed services	40,113	24,651	-	-	-	64,764	-	-	-	64,764
Miscellaneous	2,965	3,338	1,024	5,864	56,534	69,725	1,773	2,707	-	74,205
Bank charges and fees	10	10	5	3,497	67	3,589	647	3,495	-	7,731
Interest	4	4	-	-	22,591	22,599	-	-	-	22,599
	1,321,070	1,097,397	298,558	340,060	7,523,520	10,580,605	342,118	193,230	42,396	11,158,349
Depreciation and amortization	46,430	29,894	12,814	2,061	143,473	234,672	1,101	1,030	-	236,803
Total Functional Expenses	1,367,500	1,127,291	311,372	342,121	7,666,993	10,815,277	343,219	194,260	42,396	11,395,152
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	(42,396)	(42,396)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,367,500	\$ 1,127,291	\$ 311,372	\$ 342,121	\$ 7,666,993	\$ 10,815,277	\$ 343,219	\$ 194,260	\$ -	\$ 11,352,756

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services					Total Program Services	Supporting Services		Total
	Shelter and Crisis Care	Rights of Passage	Outreach	Public Education and Advocacy	Schools		Management and General	Fundraising	
Salaries and wages	\$ 655,758	\$ 567,672	\$ 177,670	\$ 164,847	\$ 3,759,025	\$ 5,324,972	\$ 178,399	\$ 103,114	\$ 5,606,485
Payroll taxes	57,371	49,664	15,544	14,422	328,406	465,407	15,608	9,021	490,036
Employee benefits	134,381	116,330	36,409	33,781	637,953	958,854	36,558	21,130	1,016,542
Total Salaries and Related Expenses	847,510	733,666	229,623	213,050	4,725,384	6,749,233	230,565	133,265	7,113,063
Contributed public service announcements	-	-	-	32,400	43,200	75,600	-	10,800	86,400
Accounting fees	-	-	-	-	13,780	13,780	41,576	-	55,356
Legal fees	6,293	5,841	2,244	5,364	53,624	73,366	5,945	2,682	81,993
Management and other professional fees	24,309	20,527	3,542	28,830	598,707	675,915	14,547	16,665	707,127
Supplies	26,266	24,153	3,712	1,470	205,623	261,224	5,049	636	266,909
Telephone	3,549	3,155	779	1,231	40,111	48,825	675	500	50,000
Postage and printing	707	707	576	21,311	18,182	41,483	452	8,257	50,192
Occupancy :									
Fuel and utilities	55,381	42,792	4,047	1,302	274,955	378,477	651	651	379,779
Repairs and maintenance	11,542	11,566	3,295	-	141,858	168,261	3,295	-	171,556
Rent and other	-	-	-	467	-	467	1,869	156	2,492
Equipment	12,284	13,250	1,632	1,800	203,502	232,468	3,019	799	236,286
Travel and transportation	15,888	16,238	6,149	2,298	16,534	57,107	2,155	1,393	60,655
Specific assistance to individuals									
Food	76,211	51,774	212	-	10,600	138,797	-	-	138,797
Clothing, allowance and other	12,173	9,835	2,724	-	123,391	148,123	-	-	148,123
Contributed clothing and merchandise	37,765	18,784	7,374	-	-	63,923	-	-	63,923
Temporary help	4,261	4,217	1,205	-	1,119	10,802	1,248	-	12,050
Other purchased services	70,356	59,881	14,732	7,486	203,030	355,485	13,182	3,623	372,290
Dues, licenses and permits	3,707	3,707	1,239	342	211,759	220,754	823	214	221,791
Subscriptions and publications	471	353	58	31	47	960	26	16	1,002
Staff recruitment	4,508	3,945	1,127	-	-	9,580	1,691	-	11,271
Insurance	23,025	20,424	4,349	768	62,407	110,973	635	384	111,992
Contributed services	47,678	31,786	-	-	-	79,464	-	-	79,464
Miscellaneous	15,937	15,015	2,706	3,489	140,048	177,195	4,163	1,615	182,973
Bank charges and fees	97	97	5	2,449	4,675	7,323	195	2,444	9,962
	1,299,918	1,091,713	291,330	324,088	7,092,536	10,099,585	331,761	184,100	10,615,446
Depreciation and amortization	86,015	41,365	14,574	4,000	120,428	266,382	2,022	2,000	270,404
Total Expenses Reported by Function on the Statement of Activities	\$ 1,385,933	\$ 1,133,078	\$ 305,904	\$ 328,088	\$ 7,212,964	\$ 10,365,967	\$ 333,783	\$ 186,100	\$ 10,885,850

See notes to consolidated financial statements

Covenant House Michigan

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,917,299	\$ 966,533
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	236,803	270,404
Net realized and unrealized gain on investments	-	(2,344)
Deferred revenue	140,296	26,425
Deferred compensation	(272,974)	96,617
Net change in operating assets and liabilities		
Receivables	(271,028)	(134,050)
Prepaid expenses and other assets	59,452	346,372
Accounts payable and accrued expenses	(1,591)	(96,979)
Due from related parties	(108,833)	-
Due to/from Parent	7,093	(3,573)
Net Cash from Operating Activities	1,706,517	1,469,405
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(25,934)	(906,128)
Proceeds from sales of investments	-	1,395,095
Purchase of property and equipment	(185,486)	(1,053,968)
Net Cash from Investing Activities	(211,420)	(565,001)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease	(3,049)	(11,421)
Change in Cash and Cash Equivalents	1,492,048	892,983
CASH AND CASH EQUIVALENTS		
Beginning of year	2,815,867	1,922,884
End of year	\$ 4,307,915	\$ 2,815,867
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 22,588	\$ 4,660

See notes to consolidated financial statements

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

1. Organization and Nature of Operations

Covenant House Michigan ("CHM" or the "Organization") and Youth Vision Solutions ("YVS"), a not-for-profit organization, is an operating affiliate of Covenant House (the "Parent"), a New York-based organization. CHM provides shelter, food, clothing, counseling, public education and other services to homeless and at-risk youth in the Detroit, Michigan metropolitan area. The Parent is the sole member of the Organization and is itself a private, not-for-profit organization which, through its affiliates, provided shelter, food, clothing, counseling, medical attention, crisis intervention and other services to 51,173 and 57,364 (unaudited) runaway, homeless and at-risk youths during the years ended June 30, 2015 and 2014.

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 1,004 and 1,000 students during the years ended June 30, 2015 and 2014 (unaudited).

CHM is affiliated with the following additional not-for-profit organizations through common control:

- Covenant House Holdings LLC
- Covenant House Alaska
- Covenant House Florida
- Covenant House Georgia
- Covenant House California
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Toronto
- Covenant House Vancouver
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House New York/Under 21
- Covenant International Foundation
- Asociacion Casa Alianza (Guatemala)
- Casa Alianza De Honduras
- Casa Alianza Nicaragua
- Fundacion Casa Alianza Mexico, I.A.P.

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

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

Covenant House Michigan ("CHM") and YVS have been determined to be a 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. The Organization is also exempt from Michigan income and sales taxes. The Organization has been classified as a publicly supported charitable organization under Section 509(a) (1) of the IRC and qualifies for the maximum charitable contribution deduction for donors.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CHM and YVS, collectively the "Organization". All significant intercompany balances and transactions have been eliminated in consolidation.

Net Assets Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as assets released from restrictions. Temporarily restricted net assets at the end of 2015 are available for certain initiatives. Permanently restricted net assets represent those resources that have been designated by the donor to be held and invested in perpetuity. There were no permanently restricted net assets as of June 30, 2015 and 2014.

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

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

Contributions and Revenue Recognition

Contributions, including unconditional promises to give, are reported in the period in which they are received. Unconditional promises to give payable over more than one year are discounted to reflect the present value of future cash flows at an appropriate risk adjustment rate that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. The Organization reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Revenues from government grants and contracts are generally recognized as earned, that is, as related costs are incurred under the grant or contract agreement, or recognized as revenue in the period in which services are rendered.

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

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

Contributed Services, Public Service Announcements and In-Kind Donations

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

Total revenue from contributed services, public service announcements, and merchandise was \$227,549 and \$235,951 for the years ended June 30, 2015 and 2014. Of these non-monetary transactions, \$83,121 and \$70,087 was recorded as in-kind donations for clothing and household supplies received for the programs for the years ended June 30, 2015 and 2014. For the years ended June 30, 2015 and 2014, \$61,628 and \$79,464 was recorded as program expense for mental health therapists' and nurse practitioners' contributed services. For the years ended June 30, 2015 and 2014, \$82,800 and \$86,400 was recorded as public service announcements for public education and advocacy.

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

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

Fundraising

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

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Investments

Short-term investments include certificates of deposit with an original maturity in excess of three months and are stated at cost plus accrued interest. Long-term investments include mutual 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 valued at fair value in the consolidated statements of financial position. Interest, dividends, realized and unrealized gains and losses on the sale of investments are included in the consolidated statements of activities. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment are reviewed for impairment events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted fair values and third-party independent.

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

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

Property and Equipment

Property and equipment are recorded at cost if purchased or, if donated, at fair value at the date of the gift, less accumulated depreciation and amortization. Depreciation is computed on a straight line basis over the estimated useful lives of the assets, which range from three to forty years. Leasehold improvements are amortized over the lesser of the term of the lease or their estimated useful lives.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$32,200 and \$36,400 for the years ended June 30, 2015 and 2014.

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, 2012.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is November 19, 2015.

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.

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies *(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. Beginning July 1, 2013, the academies are governed by a public board appointed by the authorizing body, Grand Valley State University ("GVSU"). The academies operate pursuant to a charter contract issued by GVSU and operate as independent public schools under the state law. The Academies provide education, for homeless and at-risk children and those who have dropped out of school while in grades nine through twelve, and assists students in earning their high school diplomas.

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

During the year ended June 30, 2014, Covenant House Academy-Grand Rapids ("CHA-GR") opened with a governing public board appointed by GVSU. CHA-GR operates pursuant to a charter contract issued by GVSU and operates as an independent public school under the state law. YVS was hired by the charter school's Board of Directors to manage CHA-GR and in its role, provides all labor, material, equipment and supervision required by the schools, subject to approval by the Board.

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.

Reclassifications

Certain accounts in the 2014 consolidated financial statements have been reclassified to conform to the current year consolidated financial statement presentation.

3. Contributions and Government Grants Receivable

Contributions receivable have been recorded at present value and are included in receivables in the consolidated statements of financial position.

All government grants receivable as of June 30, 2015 and 2014 were expected to be collected within one year.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2015 and 2014

4. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 216,000	\$ 216,000
Buildings	6,149,429	6,149,429
Site improvements	925,122	843,131
Furniture and equipment	<u>467,466</u>	<u>403,592</u>
	7,758,017	7,612,152
Accumulated depreciation and amortization	<u>(2,442,884)</u>	<u>(2,245,702)</u>
	<u>\$ 5,315,133</u>	<u>\$ 5,366,450</u>

Depreciation and amortization expense was \$236,803 and \$270,404 for the years ended June 30, 2015 and 2014.

5. Investments

Investments at June 30, 2015 and 2014 consist of certificates of deposit and mutual funds measured at fair value on a recurring basis and are classified with Level 1 inputs using the fair value hierarchy as follows:

	<u>2015</u>	<u>2014</u>
Certificates of deposit	\$ 1,410,670	\$ 1,410,540
Mutual funds	<u>411,973</u>	<u>386,169</u>
	<u>\$ 1,822,643</u>	<u>\$ 1,796,709</u>

6. Commitments and Contingencies

Operating Leases

The Organization has entered into various non-cancelable operating leases for office equipment which expire at various dates through August 2018. Rental expense under all operating leases amounted to \$47,413 and \$9,671 for the years ended June 30, 2015 and 2014.

Future minimum lease payments under non-cancelable leases at June 30, 2015, are as follow for the years ending June 30:

2016	\$ 30,987
2017	30,987
2018	30,987
2019	<u>5,165</u>
	<u>\$ 98,126</u>

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

6. Commitments and Contingencies (*continued*)

Operating Leases (continued)

During July 1999, CHM entered into a dollar-a-year lease for its main campus with the Archdiocese of Detroit for a period of 99 years. The fair value of the property at the time of the lease signing was recorded as temporarily restricted net assets and is released from restriction over the period of the lease. As the asset is amortized over the 99 year life of the lease, \$1,869 of rent expense and amortization is recorded. CHM uses this property for administrative purposes, the crisis center, rights of passage, charter school and future programs.

CHM subleases a portion of its main campus to Covenant House Academy-Detroit, Central campus. CHM entered into a lease with Covenant House Academy-Detroit, East campus for a building effective February 3, 2015 through June 30, 2016.

CHM also entered into a lease with Covenant House Academy-Detroit, Southwest campus for a building effective February 3, 2015 through June 30, 2020.

During July 2013, CHM purchased a building from the Grand Rapids Public Schools. CHM entered into a lease with Covenant House Academy-Grand Rapids for the building effective July 1, 2013 through June 30, 2018.

Rental payments are made by YVS in connection with its management agreement to operate each of the academies. Because YVS reports revenue on a gross basis as a principal or primary obligor, intercompany rental income and expense between CHM and YVS is eliminated upon consolidation.

Capital Leases

CHM had a capital lease agreement for property and equipment, which expired in October 2014. Assets held under the capital lease were \$0 and \$44,032 as of June 30, 2015 and 2014. Accumulated amortization as of June 30, 2015 and 2014 was \$44,032 and \$38,528. The lease required a monthly payment of \$977 including interest of 3.25%.

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 \$615,293 and \$581,190 for years ended June 30, 2015 and 2014.

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.

Covenant House Michigan

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

7. Net Asset Classifications and Releases from Restriction

At June 30, 2015 and 2014 temporarily restricted net assets of \$155,096 and \$156,965 were time restricted. Net assets of \$1,869 were released from restriction by satisfying the restricted purpose for each of the years ended June 30, 2015 and 2014.

8. Related-Party Transactions

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of the affiliates. Contributions and promises to give totaled approximately \$60.8 million and \$57.8 million for the Parent in years ended June 30, 2015 and 2014. 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 \$31.3 million and \$33.1 million for the years ended 2015 and 2014. In fiscal 2015 and 2014, the Organization received \$972,000 and \$972,000 in contributions from the Parent.

At June 30, 2015 and 2014, YVS had receivables from related parties amounting to \$1,169,080 and \$1,060,247 relating to management fees.

9. Employee Benefit Plans

The Parent adopted a defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees are immediately eligible to enter the 403(b) savings plan. CHM will match 50 cents for every dollar contributed up to 6.0% of compensation. All full-time and part-time employees with benefits employed with CHM as of December 31, 2006 immediately received the employer match. Per diem employees who worked more than 1,000 hours in 2006 were immediately eligible for the match. The employer match contribution to the 403(b) plan was suspended for fiscal 2011. On January 1, 2012 the employer match was resumed. In addition, 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 \$64,310 and \$82,187 for the years ended June 30, 2015 and 2014.

Covenant House Michigan

Notes to Consolidated Financial Statements June 30, 2015 and 2014

9. Employee Benefit Plans *(continued)*

During the year ended June 30, 2012, a deferred compensation agreement was entered into with YVS's former Chief Executive Officer. Under the agreement, deferred compensation of an applicable dollar amount was accrued for the plan through the plan year ending December 31, 2014. For the years ended June 30, 2015 and 2014, the Organization recorded an expense of \$12,742 and \$70,969. The accrual as of June 30, 2015 and 2014 was \$101,998 and \$374,972. Long-term investments designated for the deferred compensation plan were \$101,998 and \$379,000 at June 30, 2015 and 2014.

10. Grants and Contracts

CHM was awarded a cost-reimbursable City of Detroit Block Grant. The total amount of the grant award is \$100,000 for the period October 2013 to September 2015. As of June 30, 2015 and 2014, the Organization has recorded a receivable of \$83,428 and \$0 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. The total amount of the grant award was \$200,000 for the period October 2013 through September 2014. As of June 30, 2015 and 2014, the Organization has recorded a receivable of \$63,876 and \$152,700 from the City of Detroit representing services performed under this award.

CHM was awarded a cost-reimbursable HUD Supportive Housing Grant. The total amount of the grant awarded was \$408,056 for the period March 2014 through February 2015. As of June 30, 2015 and 2014, the Organization has recorded a receivable of \$130,612 and \$117,974 representing services performed under this award.

11. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of investments, cash and cash equivalents and receivables. Investments and cash and cash equivalents are managed within guidelines established by the Board of Directors. As of June 30, 2015, all investments were maintained by large financial institutions. The Organization maintains its cash with established commercial banks. At times, the cash balances exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents. Concentrations of credit risk with respect to receivables are limited due to the fact that receivables are due from a number of donors and grant agencies.

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Covenant House Michigan

Supplementary Information
June 30, 2015

Covenant House Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development:			
Continuum of Care Program	14.267		\$ 420,694
Pass-through City of Detroit			
Community Development Block Grants/Entitlement Grants	14.218	2895701	23,073
Community Development Block Grants/Entitlement Grants	14.218	2895701-1	83,428
			<u>106,501</u>
Emergency Solutions Grant Program	14.231	2893855	24,222
Emergency Solutions Grant Program	14.231	2893855-1	63,876
			<u>88,098</u>
Total Expenditures of Federal Awards			<u>\$ 615,293</u>

1. **Basis of Presentation**

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Covenant House Michigan under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Covenant House Michigan, it is not intended to and does not represent the financial position, changes in net assets or cash flows of Covenant House Michigan.

2. **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. **Subrecipients**

For the year ended June 30, 2015, Covenant House Michigan provided no funds to subrecipients.

**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 financial statements of Covenant House Michigan ("CHM"), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CHM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHM's internal control. Accordingly, we do not express an opinion on the effectiveness of CHM'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 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 CHM's 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 determination of financial statement amounts. 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.

O'Connor Davies, LLP

November 19, 2015

**Report on Compliance for Each Major Federal Program and
on Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditors' Report

**Board of Directors
Covenant House Michigan**

Report on Compliance for Each Major Federal Program

We have audited Covenant House Michigan's ("CHM") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CHMI's major federal programs for the year ended June 30, 2015. CHMI'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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of CHMI'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 CHM'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 CHM'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, 2015.

Report on Internal Control Over Compliance

Management of CHM 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 CHM'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 OMB Circular A-133, 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 CHM 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

O'Connor Davies, LLP

November 19, 2015

Covenant House Michigan

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: 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? _____ yes X 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 Section 510(a) of OMB Circular A-133? _____ yes X no
Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.267	Continuum of Care Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2015.

Section III - Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior Year Financial Statement Findings

There were no prior year financial statement findings.

Section V – Prior Year Federal Award Findings and Questioned Costs

There were no prior year financial statement findings