Coalition on Temporary Shelter

Financial Report

June 30, 2018

Contents

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Independent Auditor's Report

To the Board of Directors
Coalition on Temporary Shelter

Report on the Financial Statements

We have audited the accompanying financial statements of Coalition on Temporary Shelter (the "Organization"), which comprise the balance sheet as of June 30, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Consolidated financial statements are required for conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1, the parent-only financial statements include a wholly owned subsidiary and a variable interest entity, for which the Organization is the primary beneficiary, that are accounted for under the cost method instead of the consolidation method required by accounting standards generally accepted in the United States of America. Additionally, as discussed in Note 1, the parent-only financial statements exclude an entity for which the Organization is the sole member instead of using the consolidation method required by accounting principles generally accepted in the United States of America. The parent-only financial statements are being issued in addition to the 2018 and 2017 consolidated financial statements that include the subsidiaries and variable interest entities. Information regarding the variable interest entities is disclosed in Note 13.

To the Board of Directors
Coalition on Temporary Shelter

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the balance sheet of Coalition on Temporary Shelter as of June 30, 2018 and 2017 and the statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2019 on our consideration of Coalition on Temporary Shelter's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Coalition on Temporary Shelter's internal control over financial reporting and compliance.

Plante & Moran, PLLC

July 29, 2019

Balance Sheet

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 2,110,748	$ 1,495,632
Investments	10,391,521	9,603,615
Receivables:		
Trade and grant - Net (Note 3)	504,062	492,830
Contributions and other (Note 4)	1,752,750	400,000
Prepaid expenses and other current assets	1,108,561	499,044
Total current assets	15,867,642	12,491,121
Investments in Limited Partnerships (Note 13)	443,114	443,114
Contributions Receivable (Note 4)	908,250	-
Other Assets - Related party receivable (Note 12)	1,749,681	1,749,681
Property and Equipment - Net (Note 6)	2,909,530	1,241,108
Assets Held for Sale (Note 6)	240,643	-
Endowment (Note 14)	928,122	900,102
Total assets	**$ 23,046,982**	**$ 16,825,126**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 660,875	$ 191,426
Deferred revenue	3,554	4,243
Accrued wages and other	324,434	296,522
Total current liabilities	988,863	492,191
Long-term Note Payable (Note 7)	350,000	350,000
Total liabilities	1,338,863	842,191
Net Assets		
Unrestricted:		
Undesignated	17,324,998	13,388,834
Board designated	1,503,665	1,462,440
Temporarily restricted net assets (Note 16)	2,555,414	807,619
Permanently restricted net assets	324,042	324,042
Total net assets	21,708,119	15,982,935
Total liabilities and net assets	**$ 23,046,982**	**$ 16,825,126**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Contributions	$ 1,483,439	$ 2,229,585	$ -	$ 3,713,024	$ 1,380,760	$ 831,971	$ -	$ 2,212,731
In-kind donations (Note 5)	961,352	-	-	961,352	1,088,957	-	-	1,088,957
Foundation and private grants	595,313	106,112	-	701,425	669,725	208,327	-	878,052
Federal grants	2,325,899	-	-	2,325,899	2,457,778	-	-	2,457,778
State grants	472,854	-	-	472,854	372,178	-	-	372,178
Michigan nonprofit housing	-	-	-	-	3,662	-	-	3,662
Reimbursement for services	13,317	-	-	13,317	21,652	-	-	21,652
Net realized and unrealized gains on investments	17,540	13,390	-	30,930	13,599	-	-	13,599
Interest income	136,260	7,025	-	143,285	104,531	29,851	-	134,382
Endowment contributions	18,863	-	-	18,863	19,599	-	2,500	22,099
Rent	330,518	-	-	330,518	281,687	-	-	281,687
Miscellaneous income	30,869	-	-	30,869	27,366	-	-	27,366
Total revenue and support	6,386,224	2,356,112	-	8,742,336	6,441,494	1,070,149	2,500	7,514,143
Net Assets Released from Restrictions	608,317	(608,317)	-	-	266,298	(266,298)	-	-
Total revenue, support, and net assets released from restrictions	6,994,541	1,747,795	-	8,742,336	6,707,792	803,851	2,500	7,514,143
Expenses								
Program services:								
Long-term shelter	-	-	-	-	11,871	-	-	11,871
Emergency shelter	3,513,230	-	-	3,513,230	3,231,542	-	-	3,231,542
Transitional services	436,666	-	-	436,666	1,348,448	-	-	1,348,448
Permanent supportive housing	2,830,917	-	-	2,830,917	2,471,015	-	-	2,471,015
Total program services	6,780,813	-	-	6,780,813	7,062,876	-	-	7,062,876
Support services:								
Management and general	593,088	-	-	593,088	500,413	-	-	500,413
Fundraising	875,283	-	-	875,283	1,060,547	-	-	1,060,547
Total expenses	8,249,184	-	-	8,249,184	8,623,836	-	-	8,623,836
Increase (Decrease) in Net Assets - Before other changes in net assets	(1,254,643)	1,747,795	-	493,152	(1,916,044)	803,851	2,500	(1,109,693)
Contribution from Michigan Nonprofit Housing (Note 12)	5,232,032	-	-	5,232,032	4,352,583	-	-	4,352,583
Increase in Net Assets	3,977,389	1,747,795	-	5,725,184	2,436,539	803,851	2,500	3,242,890
Net Assets - Beginning of year	14,851,274	807,619	324,042	15,982,935	12,414,735	3,768	321,542	12,740,045
Net Assets - End of year	**$ 18,828,663**	**$ 2,555,414**	**$ 324,042**	**$ 21,708,119**	**$ 14,851,274**	**$ 807,619**	**$ 324,042**	**$ 15,982,935**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services					Support Services			
	Long-term Shelter	Emergency Shelter	Transitional Services	Permanent Supportive Housing	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ -	$ 1,444,649	$ 114,480	$ 653,555	$ 2,212,684	$ 364,385	$ 402,043	$ 766,428	$ 2,979,112
Employee benefits	-	344,482	26,678	146,670	517,830	68,452	60,160	128,612	646,442
Payroll taxes	-	132,631	11,612	58,122	202,365	31,923	26,357	58,280	260,645
Total salaries and related expenses	-	1,921,762	152,770	858,347	2,932,879	464,760	488,560	953,320	3,886,199
Donated materials and food	-	956,937	-	-	956,937	-	-	-	956,937
Supplies	-	18,481	814	5,641	24,936	3,934	8,555	12,489	37,425
Food	-	73,158	15	105	73,278	658	657	1,315	74,593
Transportation	-	9,823	415	2,544	12,782	835	680	1,515	14,297
Utilities	-	86,202	13,656	94,141	193,999	9,512	3,568	13,080	207,079
Contract and professional services	-	60,702	7,960	63,137	131,799	68,388	32,750	101,138	232,937
Repairs and maintenance	-	116,272	15,301	43,766	175,339	12,230	5,400	17,630	192,969
Program materials	-	21,598	2,583	8,267	32,448	4,377	170	4,547	36,995
Telephone	-	43,263	3,301	15,408	61,972	3,289	24,007	27,296	89,268
Employee relations and training	-	17,047	2,748	17,561	37,356	11,490	14,104	25,594	62,950
Insurance	-	50,747	37,178	73,452	161,377	3,625	3,624	7,249	168,626
Printing, postage, and related expenses	-	-	-	-	-	-	231,847	231,847	231,847
Special event costs	-	-	-	-	-	-	51,627	51,627	51,627
Rent	-	8,806	111,690	1,545,382	1,665,878	628	630	1,258	1,667,136
Bad debt	-	-	2,417	13,019	15,436	-	-	-	15,436
Depreciation	-	115,717	85,172	71,446	272,335	8,265	8,266	16,531	288,866
Miscellaneous	-	12,715	646	18,701	32,062	1,097	838	1,935	33,997
Total functional expenses	**$ -**	**$ 3,513,230**	**$ 436,666**	**$ 2,830,917**	**$ 6,780,813**	**$ 593,088**	**$ 875,283**	**$ 1,468,371**	**$ 8,249,184**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2017

	Program Services					Support Services			
	Long-term Shelter	Emergency Shelter	Transitional Services	Permanent Supportive Housing	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ 3,538	$ 1,264,419	$ 395,861	$ 509,184	$ 2,173,002	$ 306,537	$ 378,587	$ 685,124	$ 2,858,126
Employee benefits	878	289,605	94,569	118,790	503,842	66,490	57,367	123,857	627,699
Payroll taxes	285	103,426	31,588	40,798	176,097	23,722	23,191	46,913	223,010
Total salaries and related expenses	4,701	1,657,450	522,018	668,772	2,852,941	396,749	459,145	855,894	3,708,835
Donated materials and food	-	1,081,181	-	-	1,081,181	-	-	-	1,081,181
Supplies	21	15,612	1,623	5,382	22,638	2,661	5,172	7,833	30,471
Food	326	71,505	2,485	270	74,586	797	725	1,522	76,108
Transportation	55	6,585	7,610	1,170	15,420	865	338	1,203	16,623
Utilities	1,527	76,355	123,278	63,148	264,308	1,527	3,054	4,581	268,889
Contract and professional services	668	46,078	37,996	45,449	130,191	64,467	263,408	327,875	458,066
Repairs and maintenance	1,264	65,985	109,698	26,156	203,103	2,088	2,890	4,978	208,081
Program materials	8	59,320	3,552	7,940	70,820	3,575	135	3,710	74,530
Telephone	261	21,729	36,564	7,606	66,160	2,986	19,916	22,902	89,062
Employee relations and training	51	16,526	8,105	16,038	40,720	10,765	3,366	14,131	54,851
Insurance	330	26,413	83,831	52,634	163,208	3,301	1,982	5,283	168,491
Printing, postage, and related expenses	-	-	-	-	-	-	245,187	245,187	245,187
Special event costs	-	-	-	-	-	-	48,864	48,864	48,864
Rent	-	-	185,709	1,537,492	1,723,201	-	-	-	1,723,201
Bad debt	1,599	-	5,240	8,249	15,088	-	-	-	15,088
Depreciation	970	77,636	208,791	14,557	301,954	9,705	5,822	15,527	317,481
Miscellaneous	90	9,167	11,948	16,152	37,357	927	543	1,470	38,827
Total functional expenses	**$ 11,871**	**$ 3,231,542**	**$ 1,348,448**	**$ 2,471,015**	**$ 7,062,876**	**$ 500,413**	**$ 1,060,547**	**$ 1,560,960**	**$ 8,623,836**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 5,725,184	$ 3,242,890
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	288,866	317,481
Bad debt expense	15,436	15,088
Realized and unrealized (gain) loss on investments	(30,930)	73,230
Endowment contributions	-	(2,500)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(26,668)	439,205
Contributions and other receivables	(2,261,000)	(400,000)
Prepaid expenses and deposits	(609,517)	(26,658)
Accounts payable	469,449	64,647
Deferred revenue	(689)	4,243
Accrued wages and other liabilities	27,912	305
Net cash and cash equivalents provided by operating activities	3,598,043	3,727,931
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,197,931)	(257,760)
Purchases of investments	(1,381,423)	(4,526,643)
Proceeds from sales and maturities of investments	596,427	-
Net cash and cash equivalents used in investing activities	(2,982,927)	(4,784,403)
Cash Flows Provided by Financing Activities - Endowment contributions	-	2,500
Net Increase (Decrease) in Cash and Cash Equivalents	615,116	(1,053,972)
Cash and Cash Equivalents - Beginning of year	1,495,632	2,549,604
Cash and Cash Equivalents - End of year	**$ 2,110,748**	**$ 1,495,632**

See notes to financial statements.

Note 1 - Nature of Business

Coalition on Temporary Shelter (COTS or the "Organization") is a not-for-profit corporation whose sources of revenue are derived principally from public contributions, foundation grants, government grants, and the United Way. Coalition on Temporary Shelter, which was formed on May 19, 1982, provides housing and comprehensive support services for both homeless individuals and homeless families in southeastern Michigan. The Organization has a wholly owned subsidiary, COTS Development Corporation, which is the primary beneficiary of a variable interest entity.

In February 2015, COTS became a managing member of MNH Development, LLC (MNH Development); there are three members. COTS has a 40 percent sharing ratio in MNH Development and appoints five of the seven board of manager members. MNH Development is a limited liability company organized to be the sole member of the managing member entities for various limited liability companies and to oversee the rehabilitation of certain affordable housing projects. Neither COTS Development Corporation; MNH Development, LLC; nor their respective variable interest entities are consolidated in the accompanying financial statements.

Michigan Nonprofit Housing Corporation (MNH Corporation) is a not-for-profit corporation that was incorporated on July 23, 1991 for the purpose of ownership, management, and/or development of housing facilities under provisions of Section 8 of the United States Housing Act of 1937 for persons of low and moderate income. COTS appoints all directors of MNH Corporation. During 2017, COTS obtained control over MNH Corporation.

The accompanying financial statements have been prepared on the accrual basis of accounting and include all material accounts receivable and payable, all other significant liabilities, and any substantial amounts received or committed for support of the Organization for future years.

The Organization has issued separate consolidated financial statements for the years ended June 30, 2018 and 2017. In addition to the separate consolidated financial statements, the accompanying parent-only financial statements are being issued for third parties that have a need for financial information of the Organization independent of the Organization's wholly owned subsidiaries and variable interest entities. In the accompanying financial statements, the variable interest entities for which the Organization and MNH Development are the primary beneficiaries are not included. Assets, liabilities, and net assets on a consolidated basis are $146,732,769 and $149,968,458 more, $117,103,065 and $134,121,505 more, and $29,629,704 and $15,846,953 more as of June 30, 2018 and 2017, respectively, than shown on these parent-only financial statements. In the accompanying financial statements, MNH Corporation is not included. Assets and net assets on a consolidated basis are $17,872,067 and $31,361,261 more, as of June 30, 2018 and 2017, respectively, than shown on these parent-only financial statements. There were no liabilities for MNH Corporation at June 30, 2018 and 2017. Additional information regarding the variable interest entities and MNH Corporation is disclosed in Note 13.

Note 2 - Significant Accounting Policies

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

The Organization maintains cash balances at three financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, except for any accounts in money market funds or mutual funds. The Organization believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Organization evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 2 - Significant Accounting Policies (Continued)

Trade and Grant Receivables

The Organization's accounts receivable balance at June 30, 2018 and 2017 is composed of rent from tenants in various housing programs and receivables from federal and state granting agencies for expenditures made in conjunction with grant agreements. A provision for uncollectible accounts has been made for all rent amounts deemed uncollectible by management. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The Organization has not recorded a provision for doubtful accounts for grant receivables since it is the opinion of management that those receivables are collectible in full.

Contributions Receivable

The Organization's contributions receivable are composed primarily of private donors, foundation and private grants, and allocations committed from various funding agencies for use in the Organization's activities. At June 30, 2018 and 2017, the Organization has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are collectible in full.

Investments

Investments are presented in the financial statements at fair value.

Property and Equipment

Property and equipment are recorded at cost when purchased or, if donated, at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. The Organization capitalizes assets whose individual cost exceeds $1,000 and whose useful life is greater than one year. Costs of maintenance and repairs are charged to expense when incurred.

Endowment

The board of directors established an endowment fund, which can be altered or revoked at a future time by the board. The endowment balance represents monies in mutual funds and money markets that have been set aside by the board of directors since its establishment. The endowment is recorded at fair value. See Notes 14 and 15 for additional information.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions with donor-imposed time or purpose restrictions are reported as restricted support. All other contributions are reported as unrestricted support. The donor restrictions expire when stipulated time restrictions end or purpose restrictions are accomplished. Gifts are reported as temporarily restricted support and temporarily restricted net assets when received and are reclassified to unrestricted net assets when the restrictions expire.

Grant Revenue

The Organization receives grant revenue through contracts with certain governmental agencies. Revenue under these contracts is recognized when earned. Deferred revenue is recorded when advance payments are received.

Reimbursement for Services

The Organization enters into contracts with certain governmental and private agencies. Revenue under these contracts is recognized when earned. Deferred revenue is recorded when advance payments are received.

Note 2 - Significant Accounting Policies (Continued)

Rental Income

The Organization leases space to tenants under short- and intermediate-term tenancies. Rental income is recognized in the period in which it is earned.

Classification of Net Assets

Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted, depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets.

Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Board-designated Net Assets

Board-designated net assets are unrestricted net assets that have been subject to self-imposed limits by action of the governing board. Board-designated net assets represent the establishment of an endowment fund and amounts set aside for the provision of supportive services for the Peterboro Arms LIHTC project for a 15-year period. At June 30, 2018 and 2017, the board-designated net assets for the endowment totaled $583,665 and $542,440, respectively. At June 30, 2018 and 2017, the board has designated $920,000 for the provision of supportive services to the LIHTC project.

Functional Allocation of Expenses

The costs of providing program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Federal Income Taxes

Coalition on Temporary Shelter is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including July 29, 2019, which is the date the financial statements were available to be issued.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization is in the process of determining which application method it will use. Management does not expect the new standard to significantly impact the amount or timing of revenue recognized; however, there will be substantial new disclosures required once the Organization adopts the new standard.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization has analyzed the impact on the financial statements, which will include a consolidation of its current three net asset classifications to two (net assets with donor restrictions and net assets without donor restrictions) and expanded required disclosures about the Organization's liquidity and management of the same.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization's year ending June 30, 2019 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Note 3 - Trade and Grants Receivable

Trade and grants receivable as of June 30 consist of the following:

	2018	2017
Federal grants	$ 500,565	$ 487,092
Interest	464	892
Rents and other	5,937	10,240
Trade and grant receivables - Gross	506,966	498,224
Less allowance for doubtful accounts	2,904	5,394
Net trade and grant receivables	$ 504,062	$ 492,830

Note 4 - Contributions Receivable

Contributions receivable as of June 30 consist of the following:

	2018	2017
Less than one year	$ 1,752,750	$ 400,000
One to five years	908,250	-
Total	$ 2,661,000	$ 400,000

Note 5 - In-kind Donations

Donated items received by the Organization and used in its programs have been reflected in the financial statements at their estimated fair values. Donated personal items that could not be used by the Organization were subsequently donated to other charitable organizations.

In-kind donations recognized by the Organization for the years ended June 30 are as follows:

	2018	2017
Food	$ 198,753	$ 238,085
Materials	762,599	850,872
Total in-kind donations	$ 961,352	$ 1,088,957

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Land, buildings, and improvements	$ 2,272,019	$ 6,445,210	5-30
Machinery and equipment	59,532	59,532	3-7
Vehicles	134,207	134,207	5
Furniture and fixtures	681,438	654,025	3-10
Computer hardware	539,962	520,274	3-5
Construction in progress (project construction and renovation)	2,391,359	292,124	-
Total cost	6,078,517	8,105,372	
Accumulated depreciation	3,168,987	6,864,264	
Net property and equipment	$ 2,909,530	$ 1,241,108	

Note 6 - Property and Equipment (Continued)

Depreciation expense for 2018 and 2017 was $288,866 and $317,481, respectively.

During 2018, the Organization announced plans to sell its Peterboro location. Subsequent to year end, the Peterboro location was sold. The carrying value of the property is $240,643. As a result of the plans to sell, the carrying value of the Peterboro building was classified as assets held for sale on the balance sheet as of June 30, 2018.

Note 7 - Affordable Housing Program Obligation

In December 2001, the Organization received a loan from a bank under the Affordable Housing Program to assist in financing the purchase of an apartment complex and the conversion of it into permanent supportive housing. At June 30, 2018 and 2017, the obligation totals $350,000, bears no interest, and is not required to be repaid as long as the housing continues to be used as affordable housing, as outlined in the Organization's application of program funds, for a period of 15 years from the date of the completion of the renovations of the apartments. This period ends in 2020. It is the Organization's intent to comply with the time requirement. However, based on the restrictions of the loan, the amount has been recorded as an obligation of the Organization.

Note 8 - Line of Credit

The Organization has established an unsecured line of credit in the amount of $500,000, which matures on May 28, 2019. At June 30, 2018 and 2017, the interest rate on the line of credit was 5.00 and 4.25 percent, respectively. There were no amounts outstanding on the line of credit as of June 30, 2018 and 2017. Subsequent to year end, the line of credit was extended through May 28, 2020.

Note 9 - Commitments

Under the Organization's housing programs, the Organization guaranteed the lease payments of approximately 170 and 200 tenants in these programs during 2018 and 2017, respectively. Lease payments range from $360 to $1,700 per month. Total lease payments are $1,545,382 and $1,537,492 for 2018 and 2017, respectively. Lease terms are generally less than one year, with most being on a month-to-month basis.

Note 10 - Operating Leases

The Organization is obligated under operating leases for office space, which expire in April 2020. Total rent expense under the lease was $12,600 and $0 for 2018 and 2017, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending June 30	Amount
2019	$ 75,906
2020	64,950
Total	$ 140,856

Note 11 - Retirement Plan

The Organization has a defined contribution thrift plan for all eligible employees. The thrift plan expenses for the years ended June 30, 2018 and 2017 were approximately $131,000 and $129,000, respectively.

Note 12 - Related Party Transactions

The Organization purchased an apartment complex in July 2000, which was converted into permanent supportive housing. The property was sold to a limited partnership, of which COTS Development Corporation is the general partner, in exchange for a non-interest-bearing note receivable in the amount of $600,000.

At June 30, 2018 and 2017, the Organization has outstanding loan receivables from the limited partnership related to the renovation of the housing project in the amount of approximately $1,750,000, which includes the non-interest-bearing note receivable mentioned above. The loan receivable amount matures during 2025 and is non-interest bearing. Loans receivable are reported at the original issue amount less principal repaid. The Organization considers a financing loan receivable to be impaired when, based upon current information and events, it believes it is probable that the Organization will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Organization does not have any loans considered to be impaired or uncollectible as of June 30, 2018 and 2017. The Organization has not recorded a provision for doubtful accounts since it is the opinion of management that the receivable is collectible in full.

The limited partnership mentioned above did not pay the Organization management or incentive fees during 2018 or 2017.

The limited partnership mentioned above leases space to the Organization for permanent supportive housing. Lease expenses totaled $51,249 and $54,408 in 2018 and 2017, respectively.

The Organization has contributed capital to the limited partnership totaling approximately $443,000 at June 30, 2018 and 2017.

Under the articles of incorporation of MNH Corporation, COTS annually receives a percentage of the MNH Corporation surplus cash. During 2018, MNH Corporation contributions of excess cash to the Organization totaled approximately $5,200,000. During 2017, MNH Corporation sold a property, which resulted in a contribution to the Organization of approximately $4,400,000. These contributions are included in unrestricted net assets at June 30, 2018 and 2017.

Note 13 - Unconsolidated Affiliates and Variable Interest Entities

COTS Development Corporation is a for-profit entity, a wholly owned subsidiary of Coalition on Temporary Shelter, organized to oversee the development of an affordable housing project (see Notes 7 and 12). Construction of the project was completed and the project commenced operations during 2005. COTS Development Corporation is guarantor of the apartment project obligations through its ownership interests in the limited partnership, which are accounted for using the cost method. COTS Development Corporation may also be obligated to repay creditors of the limited partnership under normal partnership requirements. During the years ended June 30, 2018 and 2017, COTS Development Corporation had no activities other than as disclosed above.

The Organization, through COTS Development Corporation, is the primary beneficiary of an affiliated entity (COTS Limited Dividend Housing Association Limited Partnership) that qualifies as a variable interest entity. The Organization is guarantor of the obligations of the affiliated entity through its 0.01 percent ownership interest. The entity was formed to acquire an interest in real property and to purchase, rehabilitate, develop, maintain, and operate an affordable housing complex consisting of 35 units located in Detroit, Michigan. The project was completed and placed into service during 2005. As indicated in Note 12, the affiliated entity has several obligations owed to the Organization. The affiliated entity has also obtained a $1,500,000 unconditional loan from the City of Detroit HOME Investor Rehabilitation/New Construction Loan Program. This loan is guaranteed by the Organization.

Note 13 - Unconsolidated Affiliates and Variable Interest Entities (Continued)

In February 2015, COTS became a managing member of MNH Development, LLC (MNH Development); there are three members. COTS has a 40 percent sharing ratio in MNH Development and appoints five of the seven board of manager members. MNH Development is a limited liability company organized to be the sole member of the managing member entities for various limited liability companies and oversee the rehabilitation of certain affordable housing projects. Construction of the projects commenced during 2016. The managing member entities of each of the affordable housing projects have certain financial obligations under the operating agreements, including obligations to fund certain operating deficits should they occur and repay the investor contribution in the case of recaptured low-income housing tax credits. The managing member entities' financial obligations are irrevocably and unconditionally guaranteed by Michigan Nonprofit Housing Corporation. While the managing members still have an obligation under the operating agreements, if they are unable to fulfill their obligation, recourse is sought from the guarantee. Each of the managing member entities is the 0.01 percent managing member and an investor member has the remaining 99.99 percent ownership interest in each of the affordable housing projects.

Michigan Nonprofit Housing Corporation (MNH Corporation) is a not-for-profit corporation that was incorporated on July 23, 1991 for the purpose of ownership, management, and/or development of housing facilities under provisions of Section 8 of the United States Housing Act of 1937 for persons of low and moderate income. COTS appoints all directors of MNH Corporation. During 2017, COTS obtained control over MNH Corporation. Upon transfer of control, COTS recorded the activity of MNH Corporation in accordance with acquisition accounting.

The following is summarized financial information of the affiliated entities as of and for the years ended June 30:

	2018	2017
Current assets	$ 28,118,615	$ 31,318,683
Long-term assets	136,486,221	150,011,036
Total assets	$ 164,604,836	$ 181,329,719
Current liabilities	$ 12,442,922	$ 19,003,366
Long-term liabilities	104,660,143	115,118,139
Total liabilities	$ 117,103,065	$ 134,121,505
Partner equity/net assets	$ 47,501,771	$ 47,208,214
Revenue	$ 18,150,442	$ 16,989,202
Operating expenses	(16,309,135)	(17,417,348)
Distributions	(13,080,080)	(10,881,457)
Inherent contribution	-	41,568,103
Capital contributions	11,532,330	9,072,768
Net income	$ 293,557	$ 39,331,268

Note 14 - Donor-restricted and Board-designated Endowments

The Organization's endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

	Endowment Net Asset Composition by Type of Fund as of June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 20,415	$ 324,042	$ 344,457
Board-designated endowment funds	583,665	-	-	583,665
Total funds	$ 583,665	$ 20,415	$ 324,042	$ 928,122

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 542,440	$ 33,620	$ 324,042	$ 900,102
Investment return:				
Investment income	13,967	7,025	-	20,992
Net appreciation (realized and unrealized)	17,540	13,390	-	30,930
Total investment return	31,507	20,415	-	51,922
Contributions	18,862	-	-	18,862
Withdrawals	(4,380)	-	-	(4,380)
Appropriation of endowment assets for expenditure	(4,764)	(33,620)	-	(38,384)
Endowment net assets - End of year	$ 583,665	$ 20,415	$ 324,042	$ 928,122

	Endowment Net Asset Composition by Type of Fund as of June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 33,620	$ 324,042	$ 357,662
Board-designated endowment funds	542,440	-	-	542,440
Total	$ 542,440	$ 33,620	$ 324,042	$ 900,102

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 468,489	$ 3,768	$ 321,542	$ 793,799
Investment return:				
Investment income	17,394	11,922	-	29,316
Net depreciation (realized and unrealized)	43,450	29,780	-	73,230
Total investment return	60,844	41,702	-	102,546
Contributions	18,597	-	2,500	21,097
Withdrawals	-	(8,087)	-	(8,087)
Appropriation of endowment assets for expenditure	(5,490)	(3,763)	-	(9,253)
Endowment net assets - End of year	$ 542,440	$ 33,620	$ 324,042	$ 900,102

At June 30, 2018 and 2017, all permanently restricted contributions had been invested in the endowment account.

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2018 and 2017.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to maximize total return by maintaining a level of risk consistent with the preservation of capital and anticipated future cash flow requirements. Under this policy, as approved by the board of directors, the endowment assets are invested in a balanced strategy of equities, fixed-income securities, and cash equivalents in a mix that is conducive to participation in rising markets, while allowing for adequate protection in falling markets.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The following alternatives are not to be included in the portfolio: real estate (except in common stocks or convertible securities issued by companies that invest in real estate or interests therein or real estate investment trusts), venture capital, illiquid partnerships, tangible assets, options, futures, short selling, margin, and securities lending.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy that includes the option of appropriating for distribution each year 5 percent of the value of the endowment fund using a 12-quarter rolling average with the last quarter ending on the last day of the first quarter of the calendar year, which will be considered income and may be used for the upcoming fiscal year to fund operating expenses or programs. On an annual basis, the board of directors will determine with a majority vote whether to distribute all or a portion of the income to the General Fund of the Organization.

Note 15 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Organization’s assets measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Note 15 - Fair Value Measurements (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

The Organization's policy is to recognize transfers in and out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no transfers between levels of the fair value hierarchy during 2018 or 2017.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Endowment investments:				
Municipal securities - Fixed income	$ 73,514	$ -	$ -	$ 73,514
Corporate bonds - Fixed income	47,676	-	-	47,676
Common stock	647,425	-	-	647,425
Certificates of deposit	-	39,501	-	39,501
Total endowment investments	768,615	39,501	-	808,116
Investments - Certificates of deposit	-	7,166,149	-	7,166,149
Total assets	$ 768,615	$ 7,205,650	$ -	$ 7,974,265

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
Endowment investments:				
Municipal securities - Fixed income	$ 54,925	$ -	$ -	$ 54,925
Corporate bonds - Fixed income	29,702	-	-	29,702
Common stock	606,836	-	-	606,836
Certificates of deposits	-	150,095	-	150,095
Investments - Certificates of deposits	-	7,688,302	-	7,688,302
Total assets	$ 691,463	$ 7,838,397	$ -	$ 8,529,860

Excluded from the tables above is cash totaling $120,006 and $58,544 at June 30, 2018 and 2017, respectively, which is included in the endowment. At June 30, 2018 and 2017, the Organization also holds investments of $502,950 and $752,038, respectively, which consist of certificates of deposit, which are recognized on the balance sheet at carrying value. Additionally, excluded from the table is cash of $2,722,422 and $1,163,275 at June 30, 2018 and 2017, respectively, which is included in investments.

Note 16 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes:

	2018	2017
Purpose restrictions:		
Accumulated earnings and gains on endowment	$ 20,414	$ 33,620
Capital projects	600,000	349,999
Passport to Self Sufficiency	24,000	24,000
Time restrictions	1,911,000	400,000
Total temporarily restricted net assets	$ 2,555,414	$ 807,619