

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Consolidated Financial Statements

June 30, 2024

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Consolidated Financial Statements
June 30, 2024

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Independent Auditors' Report

Board of Directors
Covenant House Illinois and
Covenant House Illinois QALICB LLC

Opinion

We have audited the accompanying consolidated financial statements of Covenant House Illinois and Covenant House Illinois QALICB LLC, which comprise the consolidated statement of financial position as of June 30, 2024, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covenant House Illinois and Covenant House Illinois QALICB LLC as of June 30, 2024, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Covenant House Illinois and Covenant House Illinois QALICB LLC, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Covenant House Illinois and Covenant House Illinois QALICB LLC's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Covenant House Illinois and Covenant House Illinois QALICB LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Covenant House Illinois and Covenant House Illinois QALICB LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Covenant House Illinois and Covenant House Illinois QALICB LLC's June 30, 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 18, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position, activities and cash flows on pages 21 through 23 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

PKF O'Connor Davies, LLP

December 12, 2024

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Consolidated Statement of Financial Position
June 30, 2024
(with comparative amounts at June 30, 2023)

	2024	2023
ASSETS		
Cash and cash equivalents	\$ 2,239,996	\$ 3,080,624
Restricted cash	120,397	148,638
Investments	-	1,000,067
Contributions and grants receivable, net	1,148,470	852,275
Note receivable	6,077,132	6,077,132
Prepaid expenses and other assets	-	18,175
Due from Parent	-	31,446
Property and equipment, net	11,170,490	8,798,504
	\$ 20,756,485	\$ 20,006,861
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 712,588	\$ 331,803
Refundable advance	-	305,282
Mortgage payable, net	7,928,810	7,914,638
Due to Parent	37,035	-
Loan payable to Parent	1,700,000	2,800,000
Total Liabilities	10,378,433	11,351,723
Net Assets		
Without donor restrictions	9,800,273	6,616,422
With donor restrictions	577,779	2,038,716
Total Net Assets	10,378,052	8,655,138
	\$ 20,756,485	\$ 20,006,861

See notes to consolidated financial statements

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Consolidated Statement of Activities
Year Ended June 30, 2024
(with summarized totals for the year ended June 30, 2023)

	2024			2023 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
CONTRIBUTIONS AND OTHER REVENUE				
Contributions	\$ 892,153	\$ 575,000	\$ 1,467,153	\$ 1,162,754
Capital campaign	-	1,171,615	1,171,615	968,016
Contributed goods	41,065	-	41,065	12,214
Contributed legal services	114,256	-	114,256	253,238
Government grants and contracts	2,608,177	-	2,608,177	1,791,598
Branding dollars from Parent	877,130	-	877,130	1,180,655
Special events revenue	411,538	-	411,538	525,990
Interest income	62,752	-	62,752	64,144
Other income	138,335	-	138,335	32,829
Net assets released from restriction	3,207,552	(3,207,552)	-	-
Total Contributions and Other Revenue	<u>8,352,958</u>	<u>(1,460,937)</u>	<u>6,892,021</u>	<u>5,991,438</u>
EXPENSES				
Program services	4,320,866	-	4,320,866	3,336,924
Supporting Services				
Management and general	524,897	-	524,897	607,829
Fundraising	323,344	-	323,344	311,067
Total Supporting Services	<u>848,241</u>	<u>-</u>	<u>848,241</u>	<u>918,896</u>
Total Expenses	<u>5,169,107</u>	<u>-</u>	<u>5,169,107</u>	<u>4,255,820</u>
Change in Net Assets	3,183,851	(1,460,937)	1,722,914	1,735,618
NET ASSETS				
Beginning of year	<u>6,616,422</u>	<u>2,038,716</u>	<u>8,655,138</u>	<u>6,919,520</u>
End of year	<u>\$ 9,800,273</u>	<u>\$ 577,779</u>	<u>\$ 10,378,052</u>	<u>\$ 8,655,138</u>

See notes to consolidated financial statements

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2024
(with summarized totals for the year ended June 30, 2023)**

	2024								2023 Total Expenses
	Program Services				Supporting Services				
	Drop-In Services	Immediate and Short-Term Housing	Transitional Living - Rights of Passage	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	
Salaries and wages	\$ 618,165	\$ 1,689,005	\$ 144,098	\$ 2,451,268	\$ 322,516	\$ 192,303	\$ 514,819	\$ 2,966,087	\$ 2,418,539
Payroll taxes	45,321	123,732	10,609	179,662	24,003	15,368	39,371	219,033	166,293
Employee benefits	117,497	321,475	27,183	466,155	58,868	32,534	91,402	557,557	405,118
Total Salaries and Related Expenses	780,983	2,134,212	181,890	3,097,085	405,387	240,205	645,592	3,742,677	2,989,950
Professional fees (includes contributed legal services of \$114,256 and \$253,238 in 2024 and 2023)	31,447	87,679	6,663	125,789	88,355	3,732	92,087	217,876	222,762
Consulting fees	2,583	7,232	517	10,332	4,350	-	4,350	14,682	33,564
Fundraising expenses	-	-	-	-	-	52,600	52,600	52,600	32,080
Housekeeping services	10,180	28,383	2,157	40,720	1,208	1,209	2,417	43,137	34,544
Repairs and maintenance	5,412	15,090	1,147	21,649	642	643	1,285	22,934	16,978
Supplies	3,679	10,256	779	14,714	436	437	873	15,587	16,942
Telephone	6,029	16,809	1,277	24,115	715	716	1,431	25,546	24,372
Postage and printing	323	901	68	1,292	38	38	76	1,368	4,926
Fuel and utilities	25,902	72,456	5,448	103,806	3,079	3,079	6,158	109,964	91,625
Rent and other	-	-	-	-	-	-	-	-	1,160
Specific Assistance to Individuals									
Clothing, allowance and other	6,932	19,408	1,386	27,726	-	-	-	27,726	63,814
Contributed clothing and merchandise	10,266	28,746	2,053	41,065	-	-	-	41,065	12,214
Medical	645	1,805	129	2,579	-	-	-	2,579	-
Food	33,245	93,087	6,649	132,981	-	-	-	132,981	110,910
Travel and transportation	2,237	6,238	474	8,949	265	265	530	9,479	7,375
Conferences, conventions, and meetings	14,090	39,285	2,985	56,360	1,672	1,672	3,344	59,704	26,011
Other purchased services	1,561	4,351	331	6,243	185	184	369	6,612	11,555
Taxes, dues, licenses, and permits	339	945	72	1,356	40	40	80	1,436	3,434
Subscriptions and publications	543	1,513	115	2,171	64	64	128	2,299	4,600
Staff recruitment	874	2,437	185	3,496	104	104	208	3,704	2,522
Insurance	26,290	73,301	5,570	105,161	3,119	3,118	6,237	111,398	77,488
Miscellaneous	29,921	92,342	7,017	129,280	3,929	3,929	7,858	137,138	18,726
Interest expense	25,641	71,489	5,432	102,562	3,043	3,043	6,086	108,648	187,074
Total Functional Expenses Before Depreciation	1,019,122	2,807,965	232,344	4,059,431	516,631	315,078	831,709	4,891,140	3,994,626
Depreciation and amortization	69,667	177,008	14,760	261,435	8,266	8,266	16,532	277,967	261,194
Total Expenses Reported By Function on Statement of Activities	<u>\$ 1,088,789</u>	<u>\$ 2,984,973</u>	<u>\$ 247,104</u>	<u>\$ 4,320,866</u>	<u>\$ 524,897</u>	<u>\$ 323,344</u>	<u>\$ 848,241</u>	<u>\$ 5,169,107</u>	<u>\$ 4,255,820</u>

See notes to consolidated financial statements

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Consolidated Statement of Cash Flows
Year Ended June 30, 2024
(with comparative amounts for the year ended June 30, 2023)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,722,914	\$ 1,735,618
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	277,967	261,194
Amortization of debt issuance costs	14,172	14,172
Investment return	(49,390)	(67)
Disposal of property and equipment	-	21,749
Discount on contributions	20,853	(4,982)
Changes in operating assets and liabilities		
Contributions and grants receivable	(317,048)	124,528
Prepaid expenses and other assets	18,175	(11,305)
Accounts payable and accrued expenses	380,785	139,123
Refundable advance	(305,282)	305,282
Due to Parent	68,481	(60,463)
Net Cash from Operating Activities	1,831,627	2,524,849
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,649,953)	(118,441)
Construction in progress	-	(321,718)
Sale of investments	1,049,457	-
Purchase of investments	-	(1,000,000)
Net Cash from Investing Activities	(1,600,496)	(1,440,159)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on loan from Parent	(1,100,000)	(200,000)
Net Change in Cash and Cash Equivalents and Restricted Cash	(868,869)	884,690
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	3,229,262	2,344,572
End of year	\$ 2,360,393	\$ 3,229,262
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 18,183	\$ 82,438
Capitalized interest - cash paid	-	3,104

See notes to consolidated financial statements

Covenant House Illinois and Covenant House Illinois QALICB LLC

Notes to Consolidated Financial Statements
June 30, 2024

1. Organization and Nature of Activities

Covenant House Illinois (the “Organization”) is a not-for-profit organization which was incorporated on October 6, 2015, providing shelter and crisis care and outreach services to youth in the Chicago, Illinois area. Covenant House (the “Parent”) and affiliates (collectively, “Covenant House”), provided shelter, food, clothing, medical and mental health care, crisis intervention, education and vocational services, public education and prevention, and other programs that reached approximately 57,000 young people during fiscal 2024. Throughout fiscal 2024, Covenant House provided a total of more than 862,000 nights of housing and safety for, on average, 2,400 youth each night.

The Parent is the sole member of the following not-for-profit affiliates:

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Illinois
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey, Inc.
- Covenant House New Orleans
- Covenant House New York/Under 21
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House Holdings, LLC
- Covenant International Foundation
- CH Housing Development Fund Corporation
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44th Corporation
- 460 West 41st Street, LLC

The Parent is also the sole member of Covenant International Foundation (“CIF”), a not-for-profit corporation. The Parent, together with CIF, represent the controlling interest of the following international not-for-profit affiliates:

- Asociación La Alianza (Guatemala)
- Casa Alianza de Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Covenant House Toronto
- Covenant House Vancouver
- Fundación Casa Alianza México, I.A.P.

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

The Organization is a qualified tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the “Code”). Accordingly, it is not subject to federal income taxes under Section 501(c)(3) of the Code. The Organization, as a not-for-profit organization, is also exempt from state and local income taxes and has been classified as a publicly supported charitable organization under Section 509(a)(1) of the code and qualifies for the maximum charitable contribution deduction for donors.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

1. Organization and Nature of Activities (continued)

In 2020, Covenant House Illinois QALICB LLC (the "LLC"), an Illinois limited liability company, was formed as a special purpose entity for participation in a New Markets Tax Credit ("NMTC") financing transaction and received an allocation of NMTC funds pursuant to Section 45D of the Code. The purpose of the LLC is to acquire, develop, improve, lease, operate, finance and manage certain real property located at 2934 West Lake Street in Chicago, Illinois (the "Project"). The activities of the LLC are included in the consolidated financial statements of the Organization. All significant inter-company balances and transactions have been eliminated.

Components of Program and Supporting Services

Drop-In Services

Drop-in services are another form of outreach at Covenant House affiliates. Youth in this program do not receive residential services, but they do receive access to nutritious meals, hot showers, hygiene products, laundry services, and new clothing and shoes. They can request and receive medical and mental health services, case management services, transitional and permanent housing assistance, and they may take part in our education and employment programs.

Immediate and Short-Term Housing

The Immediate and Short-term Housing program focuses on crisis care and provides emergency services: temporary, immediate housing; nutritious meals; clothing; medical care; mental health services; and legal aid to young people ages 16-24 in the U.S. and Canada and ages 12-18 in Guatemala, Honduras, and Mexico who are experiencing homelessness or human trafficking. Our high-quality programs and services meet youths' immediate needs, stabilize their situation, and help them consider their longer-term goals for education, employment, and career planning. We are expertly equipped to respond to the unique needs of young survivors of human trafficking, youth who identify as LGBTQ+, youth who are pregnant or parenting, and young people facing mental health challenges from their time unhoused. Our shelter doors are open 24/7, and we have provided uninterrupted service to children and youth for more than 50 years.

Transitional Living — Rights of Passage (ROP)

Covenant House's Transitional Living programs, often referred to as "Rights of Passage" or ROP, are where young people take their boldest steps toward independence. Youth live in ROP for up to 24 months, where they engage their potential and plan for the future. Our research shows that the longer a young person resides with us and takes advantage of our programs, the more likely they are to experience positive outcomes, including stable housing, gainful employment, and higher education. In our Transitional Living programs, youth build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. Covenant House staff support each young person on their journey toward sustainable independence and a hope-filled future.

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 those programs.

Fundraising

Fundraising activities relate to the activities of the development department in raising general and specific contributions.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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.

Cash and Cash Equivalents

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

Restricted Cash

At June 30, 2024 and 2023, the LLC held cash totaling \$120,397 and \$148,638, which is restricted to pay a portion of the interest, fees and expense reimbursements to certain entities with continuing involvement in the NMTC transaction. The following is a reconciliation of the cash and cash equivalents and restricted cash reported on the consolidated statement of financial position to the consolidated statement of cash flows at June 30:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 2,239,996	\$ 3,080,624
Restricted cash	120,397	148,638
	<u>\$ 2,360,393</u>	<u>\$ 3,229,262</u>

Net Asset Presentation

The Organization and the LLC report information regarding financial position and activities according to two classes of net assets: without and with donor restrictions.

Without donor restrictions – consist of resources available for the general support of the Organization’s and the LLC’s operations. Net assets without donor restrictions may be used at the discretion of the Organization’s and the LLC’s management and Board of Directors.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation (continued)

With donor restrictions – represent amounts restricted by donors to be used for specific activities or at some future date, or which require the Organization and the LLC to maintain in perpetuity, including funds that are subject to restrictions or gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Income and gains earned on endowment fund investments are available to be used in the “without donor restrictions” or “with donor restrictions” net asset classes based upon stipulations by the donors. At June 30, 2024 and 2023, the Organization and the LLC have no net assets with donor restrictions that are perpetual in nature.

Debt Issuance Costs

Debt issuance costs are reported on the consolidated statement of financial position as a direct deduction from the face amount of the mortgage payable and the leverage loan payable. Amortization of these costs is provided using the straight-line method, which does not differ materially from the effective interest method, over the 35-year life of the mortgage payable and 3 year life of the leverage loan payable.

At June 30, 2024 and 2023, debt issuance costs for the mortgage of the LLC totaled \$446,421 and \$460,593. In fiscal 2024 and 2023, amortization expense related to the debt issuance costs was \$14,172 each year.

Investment Valuation and Income Recognition

Investments are stated at fair value. Money market funds are stated at their published net asset value. 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 change in net assets.

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. All investments measured at fair value at June 30, 2023 were valued using level 1 inputs under the fair value hierarchy and were comprised of money market funds.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

2. Summary of Significant Accounting Policies (continued)

Grants Receivable

Grants receivable are stated at the amount management expects to collect from outstanding balances. Management assesses grants to determine whether balances are probable of collection, and whether an allowance for doubtful accounts is required. As of June 30, 2024 and 2023, the Organization believes all grants receivable are collectible and no provision for doubtful accounts has been made.

Revenue Recognition

Grant agreements are examined on an individual basis to determine if they meet the requirements of a contribution, rather than an exchange transaction. Those grants that are considered to be unconditional contributions are recorded upon receipt of an unconditional pledge, or of cash, and are reported as net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Contributions, including unconditional promises to give, are reported as revenue in the period received. Unconditional promises to give that are greater than one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as with donor restriction. The Organization reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time net assets with donor restriction are reclassified to without donor restriction and reported in the consolidated statement of activities as net assets released from restrictions.

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. The Organization and the LLC capitalize all purchases of property and equipment greater than, or equal to, \$10,000. Depreciation is computed using the straight-line basis over the estimate useful lives of the assets, which range from 5 to 40 years. Leasehold improvements are depreciated over the life of the lease.

Construction in progress is stated at cost, which includes the cost of construction and other costs attributable to the construction. No provision for depreciation is made on construction in progress until it is transferred into service. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including undiscounted cash flows models, quoted fair values and third-party independent appraisals, as considered necessary. There is no such impairment for the fiscal years ended June 30, 2024 and 2023.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

2. Summary of Significant Accounting Policies (continued)

Contributions of Nonfinancial Assets

The Organization received contributions of nonfinancial assets and contributed services for the years ended June 30, as follows:

	2024	2023	Usage in Program/ Activities	Donor Restriction	Fair Value Techniques
Legal	\$ 114,256	\$ 253,238	Administration	None	Estimated based on current rates of legal services provided by law firm
Goods	<u>41,065</u>	<u>12,214</u>	Program	None	Estimated based on usual and customary rates of the vendor
	<u>\$ 155,321</u>	<u>\$ 265,452</u>			

The Organization does not sell or monetize contributions of nonfinancial assets.

Due from/to Parent

Amounts due from/to Parent represent transactions with the Parent, including amounts advanced and contributions collected for and expenses paid on behalf of the Organization.

Reclassifications

Certain information in the prior year's financial statements has been reclassified to conform to current year's presentation.

Functional Expense Allocation

Expenses are summarized and categorized based upon their functional classification as either program services, management and general, or fundraising. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Expenses are allocated to functional categories based on estimates of time and effort, except for professional fees, consulting fees, fundraising expenses, clothing, allowance and other, contributed clothing and merchandise, and food, which are based on direct costs.

Summarized Comparative Information

The consolidated statements of activities and functional expenses include certain prior year summarized comparative information in total but not by net asset class or functional class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements as of and for the year ended June 30, 2023 from which the summarized information was derived.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

2. Summary of Significant Accounting Policies (continued)

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2021. The LLC is a disregarded entity for tax purposes and is included on the Organization's tax filings.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which is December 12, 2024.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Organization and the LLC to a concentration of credit risk and market risk consist principally of cash on deposit with a financial institution, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The Organization and the LLC do not believe that a significant risk of loss, due to the failure of a financial institution, presently exists.

As of June 30, 2024 and 2023, one donor accounted for 36% and 26% of contributions and grants receivable.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

4. Contributions and Grants Receivable

Contributions and grants receivable from donors that are due within one year are considered current. The discount rates used for contributions outstanding at June 30, 2024 and 2023 ranged from 2.7% to 5.4%. The interest rates have been calculated using discount factors that approximate the risk and expected timing of future contribution payments.

The receivables are due as follows at June 30:

	2024	2023
Unconditional promises expected to be collected in:		
Less than one year	\$ 849,716	\$ 426,542
Within five years	322,886	452,169
	1,172,602	878,711
Less: Discount to present value	(24,132)	(26,436)
	<u>\$ 1,148,470</u>	<u>\$ 852,275</u>

5. 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 received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations with a Parent subsidy and appropriates funds classified as “branding dollars” to each Covenant House affiliate. Total funds allocated to affiliated organizations, based on the Parent’s policy, approximated \$37 million and \$36 million for fiscal 2024 and 2023. For the years ended June 30, 2024 and 2023, the Organization received \$877,130 and \$1,180,655 in branding dollars from the Parent. The Organization is reliant on this level of support to continue its programs.

Amounts due from/to the Parent at June 30, 2024 and 2023 result from timing differences between contributions collected by the Parent on the Organization’s behalf and advances of support from the Parent, which do not bear interest and have no specified repayment date. Amounts due to the Parent at June 30, 2024 totaled \$37,035. Amounts due from the Parent at June 30, 2023 totaled \$31,446.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

5. Related Party Transactions (continued)

In fiscal 2020, the Organization entered into a loan agreement with the Parent to borrow a maximum amount of \$3,000,000. During fiscal 2021, the Organization drew down a total of \$3,000,000 on the loan, which was used to partially finance the Project, as further detailed in Note 7, and matures on March 1, 2024. On March 1, 2023, the Organization repaid \$200,000 on the loan. The interest rate is zero percent on the remaining loan balance of \$2,800,000 until March 2024 and at that point, interest accrues on outstanding principal of the loan at a rate of 2% per month in excess of SOFR, as defined. On June 17, 2024, the Organization repaid \$1,100,000 on the loan. Interest was charged and accrued from March 2024 to June 2024. The Organization can repay the loan in part, or in full, prior to the maturity date with no prepayment penalty.

The interest expense for the years ended June 30, 2024 and 2023 totaled \$18,183 and \$82,438.

During the years ended June 30, 2024 and 2023, the Organization received contributions and support from certain board members and their affiliated entities totaling \$84,238 and \$178,426.

6. Note Receivable

In connection with the NMTTC transaction, in January 2021, the Organization loaned Covenant House Investment Fund, LLC, ("Investment Fund"), an unrelated entity, \$6,046,900. As of June 30, 2024 and 2023, the loan accrued \$30,232 and \$30,232 of interest income. The Investment Fund also received equity from a tax credit investor and then made a Qualified Equity Investment ("QEI") in Chicago Development Fund ("CDF") Suballocatee XLI, LLC, as a Community Development Entity ("CDE"). The CDE then made two loans in the amount of \$6,046,900 (Note A) and \$2,283,100 (Note B) to the LLC. (See Note 8)

7. Property and Equipment

On January 13, 2020, the Organization finalized the acquisition of a building and land at 2934 West Lake Street in Chicago for total consideration of \$2,900,000. The acquisition was partially funded by the loan from the Parent, as disclosed in Note 5, and the balance through other available net assets without donor restriction.

The building was placed into use in October 2021. As a result, \$250,617 and \$240,093 of depreciation charges have been provided on the LLC's building and its fixtures for the years ended June 30, 2024 and 2023.

In fiscal 2021, the Organization transferred the land, building and construction in progress costs to the LLC, in connection with the NMTTC. A net asset transfer occurred totaling \$738,099 for costs incurred for the land, building and construction in progress costs for the Project incurred by the Organization, net of the CDE loans. This consisted of land costs of \$708,712, building costs of \$2,829,768, construction in progress costs of \$3,565,882, and debt issuance costs of \$496,023, net of the CDE loans payable of \$8,330,000 and due from LLC for \$8,484.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

7. Property and Equipment (continued)

In fiscal 2024, a net asset transfer occurred totaling \$2,081,239 for costs incurred for building improvements.

Property and equipment consist of the following at June 30:

	2024	2023
Land	\$ 708,712	\$ 708,712
Building	2,808,018	2,808,019
Building improvements	7,808,728	4,957,765
Leasehold improvements	361,833	361,833
Furniture and equipment	510,814	340,806
Computer hardware	62,857	55,656
Construction in progress	-	378,218
	12,260,962	9,611,009
Less: accumulated depreciation	(1,090,472)	(812,505)
Property and Equipment, net	\$ 11,170,490	\$ 8,798,504

8. Mortgage Payable

In November 2020, the LLC was formed for the purpose of participation in a New Markets Tax Credit (“NMTC”) financing transaction to assist in the Project pursuant to Section 45D of the Internal Revenue Code. The NMTC program, administered by the Community Development Financial Institutions Fund (“CDFI Fund”), a division of the U.S. Treasury Department, attracts private investment by awarding federal income tax credits to investors in return for their equity investments in qualified projects. The CDE administers these qualified equity investments. These credits, equal to 39% of the investment made, are a dollar-for-dollar reduction in an investor’s tax liability and are claimed over a seven-year period.

On January 13, 2021, the LLC received two mortgage loans from the CDE. The loans were comprised of Loan A totaling \$6,046,900 from the Investment Fund and Loan B totaling \$2,283,100 from Chase Community Equity, LLC (the “Tax Credit Investor”). Each of the loans are secured by the mortgage with respect to the Project. Both Loan A and B have an interest rate equal to a fixed rate of 1.086% per annum. Interest only payments are due annually December 1, 2021 and through January 13, 2028. Any accrued but unpaid interest and unpaid principal on the loans are due in full on December 31, 2057.

In connection with the NMTC financing, the Tax Credit Investor, and sole member of the Investment Fund for the NMTC financing, entered into an Investment Fund Put and Call Agreement (the “Put and Call Agreement”) with the LLC, allowing the Tax Credit Investor, upon expiration of the seven-year compliance period with respect to the NMTC Financing, to sell or “put” its membership interest in the Investment Fund to the LLC.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

8. Mortgage Payable (continued)

For the LLC, the total amount of capitalized interest related to the credit arrangement described above totaled \$45,231 at June 30, 2024 and 2023.

The NMTC financing was arranged on behalf of the LLC. The LLC served as the qualified active low income community business (the "QALICB") for the NMTC financing.

As discussed in Note 2, debt issuance costs are shown as deductions from the mortgage payable. At June 30, mortgage payable and debt issuance costs are as follows:

	2024	2023
Mortgage payable	\$ 8,375,231	\$ 8,375,231
Less unamortized debt issuance costs	(446,421)	(460,593)
Mortgage Payable, net	\$ 7,928,810	\$ 7,914,638

9. Pension Plans

The Organization participates in a Parent-sponsored noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, and covers substantially all employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Effective August 1, 2009, the Board of Directors of the Parent approved to freeze the future benefit accruals of all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent. Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. The Organization did not have an allocable share of the Parent's minimum funding requirement for fiscal 2024 or 2023.

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan. Employees are immediately eligible to participate in the plan. Employees who work at least 1,000 hours during each plan year and have one year of service are eligible to receive an employer contribution. The Organization makes annual contributions to the plan on behalf of employees ranging from 1% to 9% of employee compensation determined using a formula based on points, which equal the sum of age and years of service. Employer contributions to the plan are 100% vested after employees have completed 1,000 hours per plan year for three plan year periods. Total expenses related to the 403(b) plan were \$46,767 and \$30,603 for the years ended June 30, 2024 and 2023.

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Notes to Consolidated Financial Statements
June 30, 2024

10. Net Assets With Donor Restrictions

The following summarizes the changes in net assets with donor restrictions for the years ended June 30:

	2024			
	Beginning of Year	Contributions	Released from Restrictions	End of Year
Purpose restricted	\$ 97,026	\$ 100,000	\$ (119,120)	\$ 77,906
Time restricted	316,312	475,000	(291,439)	499,873
Capital campaign	<u>1,625,378</u>	<u>1,171,615</u>	<u>(2,796,993)</u>	<u>-</u>
	<u>\$ 2,038,716</u>	<u>\$ 1,746,615</u>	<u>\$ (3,207,552)</u>	<u>\$ 577,779</u>
	2023			
	Beginning of Year	Contributions	Released from Restrictions	End of Year
Purpose restricted	\$ 25,000	\$ 101,000	\$ (28,974)	\$ 97,026
Time restricted	282,562	225,000	(191,250)	316,312
Capital campaign	<u>1,068,093</u>	<u>968,016</u>	<u>(410,731)</u>	<u>1,625,378</u>
	<u>\$ 1,375,655</u>	<u>\$ 1,294,016</u>	<u>\$ (630,955)</u>	<u>\$ 2,038,716</u>

11. Liquidity and Availability of Financial Assets

The Organization's and LLC's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the consolidated statement of financial position are as follows:

	2024	2023
Financial assets at year end:		
Cash and cash equivalents	\$ 2,239,996	\$ 3,080,624
Investments	-	1,000,067
Contributions and grants receivable, net	<u>1,148,470</u>	<u>852,275</u>
Total Financial Assets	<u>3,388,466</u>	<u>4,932,966</u>
Less amounts unavailable for general expenditures:		
Cash restricted for the Project	(323)	(158,877)
Donor imposed restrictions	<u>(192,543)</u>	<u>(1,612,174)</u>
	<u>(192,866)</u>	<u>(1,771,051)</u>
 Financial Assets at Year-End Available to Meet Cash Needs for General Expenditures Within One Year	 <u>\$ 3,195,600</u>	 <u>\$ 3,161,915</u>

As part of its liquidity risk management, the Organization and LLC maintain a cash balance to ensure it is available as their general expenditures, liabilities, and obligations come due within one year. The Organization receives cash from contributions and grants through its fundraising efforts and from support received by the Parent through branding dollars.

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**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Supplementary Information

June 30, 2024

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Consolidating Schedule of Financial Position
June 30, 2024
(with summarized totals at June 30, 2023)

	2024				2023
	CHIL	LLC	Eliminations	Total	Total
ASSETS					
Cash and cash equivalents	\$ 2,239,673	\$ 323	\$ -	\$ 2,239,996	\$ 3,080,624
Restricted cash	-	120,397	-	120,397	148,638
Investments	-	-	-	-	1,000,067
Contributions and grants receivable, net	1,148,470	-	-	1,148,470	852,275
Note receivable	6,077,132	-	-	6,077,132	6,077,132
Due from CHIL	-	50,119	(50,119)	-	-
Prepaid expenses and other assets	-	-	-	-	18,175
Due from Parent	-	-	-	-	31,446
Right of use assets - operating lease	360,699	-	(360,699)	-	-
Property and equipment, net	151,555	11,018,935	-	11,170,490	8,798,504
	<u>\$ 9,977,529</u>	<u>\$ 11,189,774</u>	<u>\$ (410,818)</u>	<u>\$ 20,756,485</u>	<u>\$ 20,006,861</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 370,222	\$ 342,366	\$ -	\$ 712,588	\$ 331,803
Refundable advances	-	-	-	-	305,282
Mortgage payable, net	-	7,928,810	-	7,928,810	7,914,638
Due to Parent	37,035	-	-	37,035	-
Due to LLC	50,119	-	(50,119)	-	-
Lease liability, operating lease	360,699	-	(360,699)	-	-
Loan payable to Parent	1,700,000	-	-	1,700,000	2,800,000
Total Liabilities	<u>2,518,075</u>	<u>8,271,176</u>	<u>(410,818)</u>	<u>10,378,433</u>	<u>11,351,723</u>
Net Assets					
Without donor restrictions	6,881,675	2,918,598	-	9,800,273	6,616,422
With donor restrictions	577,779	-	-	577,779	2,038,716
Total Net Assets	<u>7,459,454</u>	<u>2,918,598</u>	<u>-</u>	<u>10,378,052</u>	<u>8,655,138</u>
	<u>\$ 9,977,529</u>	<u>\$ 11,189,774</u>	<u>\$ (410,818)</u>	<u>\$ 20,756,485</u>	<u>\$ 20,006,861</u>

See independent auditors' report

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Consolidating Schedule of Activities
Year Ended June 30, 2024
(with summarized totals for the year ended June 30, 2023)

	CHIL			LLC		2024 Total	2023 Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Eliminations		
CONTRIBUTIONS AND OTHER REVENUE							
Contributions	\$ 892,153	\$ 575,000	\$ 1,467,153	\$ -	\$ -	\$ 1,467,153	\$ 1,162,754
Capital campaign	-	1,171,615	1,171,615	-	-	1,171,615	968,016
Contributed goods	41,065	-	41,065	-	-	41,065	12,214
Contributed legal services	114,256	-	114,256	-	-	114,256	253,238
Government grants and contracts	2,608,177	-	2,608,177	-	-	2,608,177	1,791,598
Branding dollars from Parent	877,130	-	877,130	-	-	877,130	1,180,655
Special events revenue	411,538	-	411,538	-	-	411,538	525,990
Rental income	-	-	-	80,500	(80,500)	-	-
Interest income	60,469	-	60,469	2,283	-	62,752	64,144
Other income	138,335	-	138,335	-	-	138,335	32,829
Net assets released from restriction	3,207,552	(3,207,552)	-	-	-	-	-
Total Contributions and Other Revenue	<u>8,350,675</u>	<u>(1,460,937)</u>	<u>6,889,738</u>	<u>82,783</u>	<u>(80,500)</u>	<u>6,892,021</u>	<u>5,991,438</u>
EXPENSES							
Program services	4,078,824	-	4,078,824	318,114	(76,072)	4,320,866	3,336,924
Supporting Services							
Management and general	499,042	-	499,042	28,069	(2,214)	524,897	607,829
Fundraising	297,489	-	297,489	28,069	(2,214)	323,344	311,067
Total Supporting Services	<u>796,531</u>	<u>-</u>	<u>796,531</u>	<u>56,138</u>	<u>(4,428)</u>	<u>848,241</u>	<u>918,896</u>
Total Expenses	<u>4,875,355</u>	<u>-</u>	<u>4,875,355</u>	<u>374,252</u>	<u>(80,500)</u>	<u>5,169,107</u>	<u>4,255,820</u>
Change in Net Assets Before Non-Operating Activity	3,475,320	(1,460,937)	2,014,383	(291,469)	-	1,722,914	1,735,618
NON-OPERATING ACTIVITY							
Net asset transfer	(2,081,239)	-	(2,081,239)	2,081,239	-	-	-
Change in Net Assets	1,394,081	(1,460,937)	(66,856)	1,789,770	-	1,722,914	1,735,618
NET ASSETS							
Beginning of year	5,487,594	2,038,716	7,526,310	1,128,828	-	8,655,138	6,919,520
End of year	<u>\$ 6,881,675</u>	<u>\$ 577,779</u>	<u>\$ 7,459,454</u>	<u>\$ 2,918,598</u>	<u>\$ -</u>	<u>\$ 10,378,052</u>	<u>\$ 8,655,138</u>

See independent auditors' report

**Covenant House Illinois and
Covenant House Illinois QALICB LLC**

Consolidating Schedule of Cash Flows
Year Ended June 30, 2024
(with summarized totals for the year ended June 30, 2023)

	CHIL	LLC	2024 Total	2023 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	\$ (66,856)	\$ 1,789,770	\$ 1,722,914	\$ 1,735,618
Adjustments to reconcile change in net assets to net cash from operating activities				
Depreciation and amortization	27,350	250,617	277,967	261,194
Amortization of debt issuance costs	-	14,172	14,172	14,172
Amortization of right of use assets - operating lease	83,384	-	83,384	72,800
Investment return	(49,390)	-	(49,390)	(67)
Disposal of property and equipment	-	-	-	21,749
Discount on contributions	20,853	-	20,853	(4,982)
Changes in operating assets and liabilities				
Contributions and grants receivable	(317,048)	-	(317,048)	124,528
Prepaid expenses and other assets	18,175	-	18,175	(11,305)
Accounts payable and accrued expenses	71,789	308,996	380,785	139,123
Refundable advance	(305,282)	-	(305,282)	305,282
Due from/to Parent	68,481	-	68,481	(60,463)
Lease liability	(83,384)	-	(83,384)	(72,800)
Due to/from CHIL and LLC	(1,963)	1,963	-	-
Net Cash from Operating Activities	<u>(533,891)</u>	<u>2,365,518</u>	<u>1,831,627</u>	<u>2,524,849</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment	(97,640)	(2,552,313)	(2,649,953)	(118,441)
Construction in progress	-	-	-	(321,718)
Sale on investments	1,049,457	-	1,049,457	-
Purchase of investments	-	-	-	(1,000,000)
Net Cash from Investing Activities	<u>951,817</u>	<u>(2,552,313)</u>	<u>(1,600,496)</u>	<u>(1,440,159)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment on loan from Parent	<u>(1,100,000)</u>	<u>-</u>	<u>(1,100,000)</u>	<u>(200,000)</u>
Net Change in Cash and Cash Equivalents and Restricted Cash	(682,074)	(186,795)	(868,869)	884,690
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH				
Beginning of year	<u>2,921,747</u>	<u>307,515</u>	<u>3,229,262</u>	<u>2,344,572</u>
End of year	<u>\$ 2,239,673</u>	<u>\$ 120,720</u>	<u>\$ 2,360,393</u>	<u>\$ 3,229,262</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for interest	\$ 18,183	\$ -	\$ 18,183	\$ 82,438
Capitalized interest - cash paid	-	-	-	3,104

See independent auditors' report