Covenant House Illinois and
Covenant House Illinois QALICB LLC

Consolidated Financial Statements

June 30, 2022

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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, 2022, 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, 2022 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 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 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 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 June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 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 20 through 22 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

___________, 2022

Covenant House Illinois and
Covenant House Illinois QALICB LLC

Consolidated Statement of Financial Position
June 30, 2022
(with comparative amounts at June 30, 2021)

	2022	2021
ASSETS		
Cash and cash equivalents	$ 2,166,971	$ 3,293,909
Restricted cash	177,601	206,515
Contributions and grants receivable, net	971,821	648,153
Other receivables	-	19,410
Note receivable	6,077,132	6,075,119
Prepaid expenses and other assets	6,870	51,464
Property and equipment, net	8,641,288	7,353,761
	$ 18,041,683	$ 17,648,331
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 192,680	$ 183,915
Construction costs payable	-	1,253,722
Security deposits held	-	12,900
Leverage loan payable, net	-	295,321
Mortgage payable, net	7,900,466	7,883,280
Due to Parent	29,017	410,290
Loan payable to Parent	3,000,000	3,000,000
Total Liabilities	11,122,163	13,039,428
Net Assets		
Without donor restrictions	5,543,865	3,759,313
With donor restrictions	1,375,655	849,590
Total Net Assets	6,919,520	4,608,903
	$ 18,041,683	$ 17,648,331

See notes to consolidated financial statements

Covenant House Illinois and
Covenant House Illinois QALICB LLC

Consolidated Statement of Activities
Year Ended June 30, 2022
(with summarized totals for the year ended June 30, 2021)

	2022			
	Without Donor Restrictions	With Donor Restrictions	Total	2021 Total
CONTRIBUTIONS AND OTHER REVENUE				
Contributions	$ 297,862	$ 377,562	$ 675,424	$ 416,806
Capital campaign	-	1,642,128	1,642,128	1,653,140
Contributed property and equipment	-	-	-	61,393
Contributed goods	6,777	-	6,777	-
Contributed legal services	174,103	-	174,103	256,151
Grants	919,074	-	919,074	379,760
Grants from Sleepout events	-	-	-	201,009
Branding dollars from Parent	1,243,000	-	1,243,000	1,277,223
Special events revenue	586,399	-	586,399	131,495
Rental income	159,750	-	159,750	65,054
Interest income	60,467	-	60,467	28,219
Other income	60,501	-	60,501	54,501
Net assets released from restriction	1,493,625	(1,493,625)	-	-
Total Contributions and Other Revenue	5,001,558	526,065	5,527,623	4,524,751
EXPENSES				
Program services	2,060,794	-	2,060,794	1,633,666
Supporting Services				
Management and general	646,318	-	646,318	515,134
Fundraising	509,894	-	509,894	451,965
Total Supporting Services	1,156,212	-	1,156,212	967,099
Total Expenses	3,217,006	-	3,217,006	2,600,765
Change in Net Assets Before Non-Operating Activity	1,784,552	526,065	2,310,617	1,923,986
NON-OPERATING ACTIVITY				
Forgiveness of paycheck protection program loan	-	-	-	282,593
Change in Net Assets	1,784,552	526,065	2,310,617	2,206,579
NET ASSETS				
Beginning of year	3,759,313	849,590	4,608,903	2,402,324
End of year	$ 5,543,865	$ 1,375,655	$ 6,919,520	$ 4,608,903

See notes to consolidated financial statements

Covenant House Illinois and
Covenant House Illinois QALICB LLC

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022
(with summarized totals for the year ended June 30, 2021)

	2022							
	Program Services			Supporting Services				
	Community Service Center	Shorter-Term Housing and Crisis Care	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	2021 Total Expenses
Salaries and wages	$ 291,357	$ 874,072	$ 1,165,430	$ 127,131	$ 364,516	$ 491,648	$ 1,657,077	$ 1,279,185
Payroll taxes	23,785	71,356	95,142	10,004	26,192	36,196	131,338	120,352
Employee benefits	39,818	119,453	159,271	16,326	52,331	68,658	227,929	175,748
Total Salaries and Related Expenses	354,961	1,064,882	1,419,843	153,461	443,040	596,501	2,016,344	1,575,285
Professional fees (includes contributed legal services of $174,103 and $256,151 in 2022 and 2021)	-	-	-	259,059	-	259,059	259,059	308,749
Consulting fees	8,287	24,860	33,147	92,910	-	92,910	126,057	72,425
Fundraising expenses	-	-	-	-	40,495	40,495	40,495	17,573
Housekeeping services	8,308	19,504	27,812	5,816	1,661	7,477	35,289	-
Moving costs	1,968	6,100	8,068	1,377	394	1,771	9,839	-
Repairs and maintenance	2,171	6,730	8,901	1,520	434	1,954	10,855	-
Supplies	3,156	9,784	12,940	2,209	631	2,840	15,780	6,354
Telephone	2,899	8,986	11,885	2,029	579	2,608	14,493	12,658
Postage and printing	1,215	3,767	4,982	851	243	1,094	6,076	6,419
Fuel and utilities	12,201	37,824	50,025	8,541	2,440	10,981	61,006	26,980
Rent and other	10,785	33,432	44,217	7,549	2,157	9,706	53,923	99,244
Equipment	-	-	-	-	-	-	-	7,673
Specific Assistance to Individuals								
Clothing, allowance and other	13,977	4,659	18,636	-	-	-	18,636	-
Contributed clothing and merchandise	5,083	1,694	6,777	-	-	-	6,777	-
Food	29,339	9,780	39,119	-	-	-	39,119	61,508
Travel and transportation	1,627	5,043	6,670	1,139	325	1,464	8,134	25,583
Conferences, conventions, and meetings	3,612	11,198	14,810	2,529	722	3,251	18,061	4,479
Temporary help	47	141	188	45,066	-	45,066	45,254	90,407
Other purchased services	1,232	3,818	5,050	862	246	1,108	6,158	61,932
Taxes, dues, licenses, and permits	40	124	164	28	8	36	200	24,935
Subscriptions and publications	60	185	245	42	12	54	299	5,435
Staff recruitment	370	1,148	1,518	259	74	333	1,851	84,376
Insurance	13,191	40,893	54,084	9,234	2,638	11,872	65,956	48,264
Miscellaneous	1,769	8,173	9,942	4,797	355	5,152	15,094	9,109
Interest expense	26,145	81,048	107,193	18,301	5,229	23,530	130,723	49,927
Total Functional Expenses Before Depreciation	502,443	1,383,773	1,886,216	617,579	501,683	1,119,262	3,005,478	2,599,315
Depreciation and amortization	41,056	133,522	174,578	28,739	8,211	36,950	211,528	1,450
Total Expenses Reported By Function on Statement of Activities	$ 543,499	$ 1,517,295	$ 2,060,794	$ 646,318	$ 509,894	$ 1,156,212	$ 3,217,006	$ 2,600,765

See notes to consolidated financial statements

Covenant House Illinois and
Covenant House Illinois QALICB LLC

Consolidated Statement of Cash Flows
Year Ended June 30, 2022
(with comparative amounts for the year ended June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,310,617	$ 2,206,579
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	186,939	1,450
Amortization of debt issuance costs	24,589	9,169
Accrued interest on note receivable	(2,013)	-
Discount on contributions	12,033	19,385
Forgiveness of Paycheck Protection Program loan payable	-	(279,395)
Donated property and equipment	-	(61,393)
Changes in operating assets and liabilities		
Contributions and grants receivable	(335,701)	(569,538)
Other receivables	19,410	(19,410)
Prepaid expenses and other assets	44,594	(27,565)
Security deposits held	(12,900)	-
Accounts payable and accrued expenses	8,765	71,741
Construction costs payable	(1,253,722)	1,176,850
Due to Parent	(381,273)	195,713
Net Cash from Operating Activities	621,338	2,723,586
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,414,952)	(178,079)
Construction in progress	(56,500)	(3,157,767)
Deployment of note receivable	-	(6,075,119)
Net Cash from Investing Activities	(1,471,452)	(9,410,965)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan from Parent	-	900,000
Proceeds from mortgage payable	-	8,330,000
Proceeds from leverage loan payable	-	605,000
Payment of leverage loan payable	(305,738)	(299,262)
Proceeds from short term bridge loan	-	3,900,908
Payment of short term bridge loan	-	(3,900,908)
Payments of debt issuance costs	-	(508,523)
Net Cash from Financing Activities	(305,738)	9,027,215
Net Change in Cash and Cash Equivalents and Restricted Cash	(1,155,852)	2,339,836
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	3,500,424	1,160,588
End of year	$ 2,344,572	$ 3,500,424
NON-CASH OPERATING AND INVESTING ACTIVITIES		
Cash paid for interest (including $3,014 and $59,930 of capitalized interest)	$ 130,723	$ 89,981
Forgiveness of Paycheck Protection Program loan payable	-	282,593

See notes to consolidated financial statements

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 _______ and 18,000 young people during fiscal 2022 and 2021. During fiscal 2022, the worldwide COVID-19 pandemic impacted the number of youth Covenant House reached, as affiliates took measures to ensure social distancing, set aside isolation rooms for symptomatic youth, paused in-person public education and prevention programs, and, throughout the year, suspended or modified street outreach. The pandemic impacted all of Covenant House’s operations, including food production (meal provision was nearly 75% higher than pre-pandemic levels); the creation of online opportunities for mental health care, education, and job readiness training; development of appropriate intake protocols; implementation of new cleaning and sanitizing protocols, and other measures, all of which drove up operating costs. Nevertheless, in fiscal 2022 and 2021, Covenant House provided a total of nearly ______ and 690,000 nights of housing and safety for, on average, ______ and 1,883 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
- 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.

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

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.

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.

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, 2022 and 2021, the LLC held cash totaling $177,601 and $206,515, 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:

	2022	2021
Cash and cash equivalents	$ 2,166,971	$ 3,293,909
Restricted cash	177,601	206,515
	$ 2,344,572	$ 3,500,424

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

Net Asset Presentation

The Organization and 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 LLC's operations. Net assets without donor restrictions may be used at the discretion of the Organization's and LLC's management and Board of Directors.

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 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, 2022 and 2021, the Organization and 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, 2022 and 2021, debt issuance costs for the mortgage of the LLC totaled $488,937 and $474,765. In fiscal 2022 and 2021, amortization expense related to the debt issuance costs was $14,172 and $7,086.

At June 30, 2022 and 2021, debt issuance costs for the leverage loan of the Organization totaled $0 and $12,500. In fiscal 2022 and 2021, amortization expense related to the debt issuance costs for the leverage loan was $10,417 and $2,083.

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, 2022, the Organization believes all grants receivable are collectible and no provision for doubtful accounts has been made.

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

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, 2022 and 2021.

Contributions of Nonfinancial Assets

Contributions of nonfinancial assets are recorded as income and expenses at the time the items are received, which is also the time they are placed into service. Contributed services are reported as income and expense at their fair value if such services create value or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

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

Contributions of Nonfinancial Assets (continued)

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

	2022	2021	Usage in Program/ Activities	Donor Restriction	Fair Value Techniques
Legal	$ 174,103	$ 256,151	Administration	None	Estimated based on current rates of legal services provided by law firm
Property and equipment	-	61,393	Program and Administration	None	Estimated based on wholesale values that would be received for selling similar products in the United States
Goods	6,777	-	Program	None	Estimated based on usual and customary rates of the vendor
	$ 180,880	$ 317,544			

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

Due to Parent

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

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 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 financial statements as of and for the year ended June 30, 2021 from which the summarized information was derived.

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, 2019. The LLC is a disregarded entity for tax purposes and is included on the Organization's tax filings.

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

Operating Measure

The Organization and LLC have elected to present an operating measure in its consolidated statement of activities. Accordingly, items affecting operations are segmented from those not affecting operations. The Organization and LLC include in its measure of operations all revenue and expenses that are an integral part of its program and supporting activities.

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 ________, 2022.

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, 2022 and 2021, one donor accounted for 38% and 100% of contributions and grants receivable.

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, 2022 and 2021 ranged from 2.5% to 2.7%. 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:

	2022	2021
Unconditional promises expected to be collected in:		
Less than one year	$ 525,236	$ 334,268
Within five years	478,003	333,270
	1,003,239	667,538
Less: Discount to present value	(31,418)	(19,385)
	$ 971,821	$ 648,153

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.

5. Related Party Transactions *(continued)*

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 $____ million and $36 million for fiscal 2022 and 2021. For the years ended June 30, 2022 and 2021, the Organization received $1,243,000 and $1,277,223 in branding dollars from the Parent.

Amounts due to the Parent at June 30, 2022 and 2021 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, 2022 and 2021 totaled $29,017 and $410,290.

In January 2020, the Organization entered into a loan agreement with the Parent to borrow a maximum amount of $3,000,000. During fiscal 2022 and 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. The Organization is required to repay any unpaid principal balance in full no later than March 1, 2023. Interest accrues on outstanding principal of the loan at a rate of 1.5% in excess of LIBOR, as defined. The loan requires interest-only monthly payments, commencing March 1, 2020 until February 1, 2023. The Organization can repay the loan in part, or in full, prior to the maturity date with no prepayment penalty.

As the loan was taken out specifically to fund the property costs for the LLC, interest incurred on the loan from July 2020 to January 2021 was capitalized for a total of $17,713. The interest expense for the year ended June 30, 2022 totaled $53,567 and the remaining interest expense from February 2021 through June 2021 totaled $27,261.

During the years ended June 30, 2022 and 2021, the Organization received contributions and support from certain board members and their affiliated entities totaling $413,200 and $265,256.

6. Note Receivable

In connection with the NMTC transaction, in January 2021, the Organization loaned Covenant House Investment Fund, LLC, (“Investment Fund”), an unrelated entity, $6,046,900. As of June 30, 2022 and 2021, the loan accrued $30,232 and $28,219 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 put into use in October 2021. As a result, $172,227 of depreciation charges have been provided on the LLC's building and its fixtures for the year ended June 30, 2022.

In fiscal 2021, the Organization transferred the land, building and construction in progress costs to the LLC, in connection with the NMTC. 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.

In fiscal 2022, the Organization transferred $516,376 to the LLC. The net asset transfer included costs incurred for the Project incurred by the Organization. This consisted of $445,845 in building improvements and $70,531 in furniture and equipment.

Property and equipment consist of the following at June 30:

	2022	2021
Land	$ 708,712	$ 708,712
Building	2,829,768	2,829,768
Building improvements	4,859,454	-
Leasehold improvements	361,833	361,833
Furniture and equipment	323,076	193,468
Computer hardware	53,256	53,256
Construction in progress	56,500	3,571,095
	9,192,599	7,718,132
Less: accumulated depreciation	(551,311)	(364,371)
Property and Equipment, net	$ 8,641,288	$ 7,353,761

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 starting 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.

For the LLC, the total amount of capitalized interest related to the credit arrangement described above totaled $45,231 and $42,217 at June 30, 2022 and 2021. During fiscal 2022 and 2021, capitalized interest totaled $3,014 and $59,930.

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:

	2022	2021
Mortgage payable	$ 8,375,231	$ 8,372,217
Less unamortized debt issuance costs	(474,765)	(488,937)
Mortgage Payable, net	$ 7,900,466	$ 7,883,280

9. Leverage Loan Payable and Short Term Bridge Loan

In January 2021, the Organization entered into a loan agreement with a mission driven lender to borrow a maximum amount of $605,000 to make the leverage loan to the Investment Fund and fund the interest reserve in connection with the Project. The leverage loan was repaid in full during fiscal 2022. For the years ended June 30, 2022 and 2021, total interest expense on the loan was $12,920 and $10,721.

During fiscal 2021, the Organization entered into a short term bridge loan with a financial institution for $3,900,908 to fund the costs of the project for the LLC. The loan was repaid in full during fiscal 2021.

10. 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 2022 or 2021.

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 $16,367 and $46,281 for the years ended June 30, 2022 and 2021.

11. Net Assets With Donor Restrictions

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

	2022			
	Beginning of Year	Contributions	Released from Restrictions	End of Year
Purpose restricted	$ 155,000	$ 95,000	$ (225,000)	$ 25,000
Time restricted	100,000	282,562	(100,000)	282,562
Capital campaign	594,590	1,642,128	(1,168,625)	1,068,093
	$ 849,590	$ 2,019,690	$ (1,493,625)	$ 1,375,655

	2021			
	Beginning of Year	Contributions	Released from Restrictions	End of Year
Purpose restricted	$ 85,000	$ 70,000	$ -	$ 155,000
Time restricted	13,000	100,000	(13,000)	100,000
Capital campaign	200,000	1,653,140	(1,258,550)	594,590
	$ 298,000	$ 1,823,140	$ (1,271,550)	$ 849,590

12. Commitments and Contingencies

As of June 1, 2019, the Organization agreed to terms of a new lease on a month to month basis. For the years ended June 30, 2022 and 2021, $96,856 and $72,000 was incurred on the month to month lease, and is included within rent and other in the accompanying consolidated statement of functional expenses.

In fiscal year 2019, the Organization entered into a lease agreement with a third party (the “Tenant”) who leased certain premises within the building of the Project (see Note 1) that expires on October 31, 2023. Under the lease agreement, the Tenant agrees to pay a base rent with annual escalations. On January 12, 2021, the Project costs were transferred to the LLC, including rental income payments from the Tenant. On June 30, 2022, the lease agreement with the Tenant was terminated.

13. Economic Dependency

During the years ended June 30, 2022 and 2021, the Organization received support in the form of branding dollars from the Parent of $1,243,000 and $1,277,223. The Organization is reliant on this level of support to continue its programs.

14. 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:

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	$ 2,166,971	$ 3,293,909
Contributions and grants receivable, net	971,821	648,153
Other receivables	-	19,410
Total Financial Assets	3,138,792	3,961,472
Less amounts unavailable for general expenditures:		
Cash restricted for the Project	(528,210)	(2,999,068)
Donor imposed restrictions	(850,419)	(515,322)
	(1,378,629)	(3,514,390)
Financial Assets at Year-End Available to Meet Cash Needs for General Expenditures Within One Year	$ 1,760,163	$ 447,082

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.

* * * * *

Covenant House Illinois and Covenant House Illinois QALICB LLC

Supplementary Information

June 30, 2022

Covenant House Illinois and
Covenant House Illinois QALICB LLC

Consolidating Schedule of Financial Position
June 30, 2022
(with summarized totals at June 30, 2021)

	2022				2021
	CHIL	LLC	Eliminations	Total	Total
ASSETS					
Cash and cash equivalents	$ 1,638,761	$ 528,210	$ -	$ 2,166,971	$ 3,293,909
Restricted cash	-	177,601	-	177,601	206,515
Contributions and grants receivable, net	971,821	-	-	971,821	648,153
Other receivables	-	-	-	-	19,410
Note receivable	6,077,132	-	-	6,077,132	6,075,119
Due from LLC	260,295	-	(260,295)	-	-
Prepaid expenses and other assets	6,870	-	-	6,870	51,464
Property and equipment, net	67,766	8,573,522	-	8,641,288	7,353,761
	$ 9,022,645	$ 9,279,333	$ (260,295)	$ 18,041,683	$ 17,648,331
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	$ 189,597	$ 3,083	$ -	$ 192,680	$ 183,915
Construction costs payable	-	-	-	-	1,253,722
Security deposits held	-	-	-	-	12,900
Leverage loan payable, net	-	-	-	-	295,321
Mortgage payable, net	-	7,900,466	-	7,900,466	7,883,280
Due to Parent	29,017	-	-	29,017	410,290
Due to CHIL	-	260,295	(260,295)	-	-
Loan payable to Parent	3,000,000	-	-	3,000,000	3,000,000
Total Liabilities	3,218,614	8,163,844	(260,295)	11,642,753	13,039,428
Net Assets					
Without donor restrictions	4,428,376	1,115,489	-	5,543,865	3,759,313
With donor restrictions	1,375,655	-	-	1,375,655	849,590
Total Net Assets	5,804,031	1,115,489	-	6,919,520	4,608,903
	$ 9,022,645	$ 9,279,333	$ (260,295)	$ 18,041,683	$ 17,648,331

See independent auditors' report

Covenant House Illinois and
Covenant House Illinois QALICB LLC

Consolidating Schedule of Activities
Year Ended June 30, 2022
(with summarized totals for the year ended June 30, 2021)

	CHIL Without Donor Restrictions	CHIL With Donor Restrictions	CHIL Total	LLC Without Donor Restrictions	2022 Total	2021 Total
CONTRIBUTIONS AND OTHER REVENUE						
Contributions	$ 297,862	$ 377,562	$ 675,424	$ -	$ 675,424	$ 416,806
Capital campaign	-	1,642,128	1,642,128	-	1,642,128	1,653,140
Contributed property and equipment	-	-	-	-	-	61,393
Contributed goods	6,777	-	6,777	-	6,777	-
Contributed legal services	174,103	-	174,103	-	174,103	256,151
Grants	919,074	-	919,074	-	919,074	379,760
Grants from Sleepout events	-	-	-	-	-	201,009
Branding dollars from Parent	1,243,000	-	1,243,000	-	1,243,000	1,277,223
Special events revenue	586,399	-	586,399	-	586,399	131,495
Rental income	43,721	-	43,721	116,029	159,750	65,054
Interest income	60,467	-	60,467	-	60,467	28,219
Other income	60,349	-	60,349	152	60,501	54,501
Net assets released from restriction	1,493,625	(1,493,625)	-	-	-	-
Total Contributions and Other Revenue	4,885,377	526,065	5,411,442	116,181	5,527,623	4,524,751
EXPENSES						
Program services	1,854,838	-	1,854,838	205,956	2,060,794	1,633,666
Supporting Services						
Management and general	597,154	-	597,154	49,164	646,318	515,134
Fundraising	499,847	-	499,847	10,047	509,894	451,965
Total Supporting Services	1,097,001	-	1,097,001	59,211	1,156,212	967,099
Total Expenses	2,951,839	-	2,951,839	265,167	3,217,006	2,600,765
Change in Net Assets Before Non-Operating Activity	1,933,538	526,065	2,459,603	(148,986)	2,310,617	1,923,986
NON-OPERATING ACTIVITY						
Forgiveness of paycheck protection program loan	-	-	-	-	-	282,593
Net asset transfer	(516,376)	-	(516,376)	516,376	-	-
Change in Net Assets	1,417,162	526,065	1,943,227	367,390	2,310,617	2,206,579
NET ASSETS						
Beginning of year	3,011,214	849,590	3,860,804	748,099	4,608,903	2,402,324
End of year	$ 4,428,376	$ 1,375,655	$ 5,804,031	$ 1,115,489	$ 6,919,520	$ 4,608,903

See independent auditors' report

Covenant House Illinois and
Covenant House Illinois QALICB LLC

Consolidating Schedule of Cash Flows
Year Ended June 30, 2022
(with summarized totals for the year ended June 30, 2021)

	CHIL	LLC	2022 Total	2021 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$ 1,943,227	$ 367,390	$ 2,310,617	$ 2,206,579
Adjustments to reconcile change in net assets to net cash from operating activities				
Depreciation	14,712	172,227	186,939	1,450
Amortization of debt issuance costs	10,417	14,172	24,589	9,169
Accrued interest on note receivable	(2,013)	-	(2,013)	-
Discount on contributions	12,033	-	12,033	19,385
Forgiveness of Paycheck Protection Program loan payable	-	-	-	(279,395)
Donated property and equipment	-	-	-	(61,393)
Changes in operating assets and liabilities				
Contributions and grants receivable	(335,701)	-	(335,701)	(569,538)
Other recievables	19,410	-	19,410	(19,410)
Prepaid expenses and other assets	44,594	-	44,594	(27,565)
Security deposits held	(12,900)	-	(12,900)	-
Accounts payable and accrued expenses	5,683	3,082	8,765	71,741
Construction costs payable	-	(1,253,722)	(1,253,722)	1,176,850
Due to Parent	(381,273)	-	(381,273)	195,713
Due to/from CHIL and LLC	336,464	(336,464)	-	-
Net Cash from Operating Activities	1,654,653	(1,033,315)	621,338	2,723,586
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment	(4,995)	(1,409,957)	(1,414,952)	(178,079)
Construction in progress	-	(56,500)	(56,500)	(3,157,767)
Deployment of note receivable	-	-	-	(6,075,119)
Net Cash from Investing Activities	(4,995)	(1,466,457)	(1,471,452)	(9,410,965)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from loan from Parent	-	-	-	900,000
Proceeds from mortgage payable	-	-	-	8,330,000
Proceeds from leverage loan payable	-	-	-	605,000
Payment of leverage loan payable	(305,738)	-	(305,738)	(299,262)
Proceeds from short term bridge loan	-	-	-	3,900,908
Payment of short term bridge loan	-	-	-	(3,900,908)
Payments of debt issuance costs	-	-	-	(508,523)
Net Cash from Financing Activities	(305,738)	-	(305,738)	9,027,215
Net Change in Cash and Cash Equivalents and Restricted Cash	1,343,920	(2,499,772)	(1,155,852)	2,339,836
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH				
Beginning of year	294,841	3,205,583	3,500,424	1,160,588
End of year	$ 1,638,761	$ 705,811	$ 2,344,572	$ 3,500,424
NON-CASH OPERATING AND INVESTING ACTIVITIES				
Cash paid for interest (including $3,014 and $59,930 of capitalized interest)	$ 127,709	$ 3,014	$ 130,723	$ 89,981
Forgiveness of Paycheck Protection Program loan payable	-	-	-	282,593

See independent auditors' report