Metropolitan Family Services

Audited Consolidated Financial Statements
June 30, 2023

Contents

RSM US LLP

Independent Auditor's Report on the Financial Statements

Board of Directors
Metropolitan Family Services

Opinion
We have audited the consolidated financial statements of Metropolitan Family Services (the Agency), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter
As described in Note 2 to the financial statements, in the fiscal year ended June 30, 2023, the Agency adopted Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-02, *Leases*, (Topic 842). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the 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 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 the Agency's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 GAAS 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 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 the Agency'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency'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.

RSM US LLP

Chicago, Illinois
January 18, 2024

Metropolitan Family Services

Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Cash	$ 8,599,942	$ 5,725,046
Restricted cash	6,724,144	6,494,919
Receivables (net of allowance):		
Government grants	23,849,221	17,216,035
Fundraising contributions	531,778	530,605
Other	1,351,677	798,712
Prepaid expenses	1,448,294	1,071,288
Investments	44,259,013	42,253,290
Leveraged loan receivable	2,212,849	2,212,849
Operating lease right-of-use assets, net	8,783,328	-
Property and equipment, net	31,690,228	25,970,811
Other assets (I Grow Chicago)	-	2,988,376
Accrued pension asset	49,258	-
Beneficial interest in irrevocable perpetual trusts	17,231,042	16,656,165
Total assets	$ 146,730,774	$ 121,918,096
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 13,085,600	$ 11,218,353
Refundable advances	6,336,353	4,493,687
Unsecured investment bond	8,500,000	2,500,000
Funds held in custody for others	14,927	13,992
Interest rate swap	945,488	1,723,407
Bonds payable	12,700,000	12,700,000
NMTC notes payable, net	10,368,457	10,317,128
Accrued pension liability	-	544,319
Operating lease liabilities	9,248,037	-
Total liabilities	61,198,862	43,510,886
Net assets:		
Without donor restrictions	40,136,834	35,242,394
With donor restrictions	45,395,078	43,164,816
Total net assets	85,531,912	78,407,210
Total liabilities and net assets	$ 146,730,774	$ 121,918,096

See notes to consolidated financial statements.

Metropolitan Family Services

Consolidated Statements of Activities
Years Ended June 30, 2023 and 2022

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total Agency
Operating:			
Public support:			
MFS Annual Campaign and the Campaign to M-Power Families	$ 14,543,253	$ 2,420,767	$ 16,964,020
United Way of Metropolitan Chicago	1,381,689	622,723	2,004,412
Government grants	99,243,588	-	99,243,588
In-kind contributions	4,235,792	-	4,235,792
Total public support	119,404,322	3,043,490	122,447,812
Revenue:			
Program service fees	11,146,288	-	11,146,288
Investment payout for operations	850,680	817,320	1,668,000
Income allocations from trusts	534,651	-	534,651
Rent and other income	1,624,025	-	1,624,025
Net assets released from restrictions	2,617,623	(2,617,623)	-
Total revenue	16,773,267	(1,800,303)	14,972,964
Total public support and revenue	136,177,589	1,243,187	137,420,776
Expenses:			
Program	113,345,931	-	113,345,931
Management and general	13,306,172	-	13,306,172
Fund raising	2,754,728	-	2,754,728
In-kind contributions	4,235,792	-	4,235,792
Total expenses before depreciation and amortization and net periodic benefit expense	133,642,623	-	133,642,623
Operating surplus (deficit)	2,534,966	1,243,187	3,778,153
Other changes from operating activities:			
Depreciation and amortization	(1,218,280)	-	(1,218,280)
Net periodic benefit expense	(54,313)	-	(54,313)
Change in net assets from operating activities	1,262,373	1,243,187	2,505,560
Nonoperating activities:			
Forgiveness of Paycheck Protection Program loan	-	-	-
Net investment gains (losses)	1,064,911	1,598,026	2,662,937
Pension related changes other than net periodic pension income	647,890	-	647,890
Increase in market value of interest rate swap	777,918	-	777,918
Howard Area Community Center net assets acquired	3,153,772	125,065	3,278,837
I GROW Chicago net assets (transferred) acquired	(2,012,424)	(736,016)	(2,748,440)
Change in net assets from nonoperating activities	3,632,067	987,075	4,619,142
Increase (decrease) in net assets	4,894,440	2,230,262	7,124,702
Net assets:			
Beginning of year	35,242,394	43,164,816	78,407,210
End of year	$ 40,136,834	$ 45,395,078	$ 85,531,912

See notes to consolidated financial statements.

	2022	
Without Donor Restrictions	With Donor Restrictions	Total Agency
$ 13,970,494	$ 849,732	$ 14,820,226
1,403,104	501,766	1,904,870
79,320,820	-	79,320,820
3,245,671	-	3,245,671
97,940,089	1,351,498	99,291,587
8,273,379	-	8,273,379
850,680	817,320	1,668,000
983,748	-	983,748
1,591,880	-	1,591,880
2,965,809	(2,965,809)	-
14,665,496	(2,148,489)	12,517,007
112,605,585	(796,991)	111,808,594
94,554,353	-	94,554,353
10,460,855	-	10,460,855
2,397,734	-	2,397,734
3,245,671	-	3,245,671
110,658,613	-	110,658,613
1,946,972	(796,991)	1,149,981
(1,057,387)	-	(1,057,387)
(4,365,656)	-	(4,365,656)
(3,476,071)	(796,991)	(4,273,062)
9,670,157	-	9,670,157
(3,236,281)	(6,326,124)	(9,562,405)
4,152,586	-	4,152,586
1,530,003	-	1,530,003
-	-	-
2,252,360	736,016	2,988,376
14,368,825	(5,590,108)	8,778,717
10,892,754	(6,387,099)	4,505,655
24,349,640	49,551,915	73,901,555
$ 35,242,394	$ 43,164,816	$ 78,407,210

Metropolitan Family Services

Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Programs				
	Emotional Wellness	Empowerment	Education	Economic Stability	Total Program
Salaries	$ 18,833,319	$ 6,767,030	$ 15,834,808	$ 7,652,663	$ 49,087,820
Payroll taxes and benefits	4,595,475	1,654,805	3,763,586	1,717,968	11,731,834
Professional fees and subcontractor payments	8,999,195	17,231,262	2,466,169	1,651,829	30,348,455
Financial assistance	4,678,827	190,706	189,570	1,297,486	6,356,589
Occupancy	1,801,915	1,429,172	828,254	651,085	4,710,426
Equipment rental and maintenance	863,072	350,139	528,789	326,886	2,068,886
Other program expenses	2,200,032	1,053,463	2,909,724	821,438	6,984,657
Telephone and communication	875,499	351,593	500,223	329,949	2,057,264
	42,847,334	29,028,170	27,021,123	14,449,304	113,345,931
Depreciation and amortization allocation	495,321	245,077	244,902	108,284	1,093,584
Net periodic benefit cost	17,923	11,949	11,949	5,975	47,796
	$ 43,360,578	$ 29,285,196	$ 27,277,974	$ 14,563,563	$ 114,487,311

See notes to consolidated financial statements.

Support Services				
Management and General	Fund Raising	Total Support Services	In-Kind Contributions	2023 Total Agency
$ 6,811,854	$ 1,583,777	$ 8,395,631	$ -	$ 57,483,451
1,679,676	381,773	2,061,449	-	13,793,283
2,891,491	155,391	3,046,882	4,077,902	37,473,239
6,431	35,364	41,795	157,890	6,556,274
648,094	364,750	1,012,844	-	5,723,270
308,362	77,129	385,491	-	2,454,377
644,756	89,472	734,228	-	7,718,885
315,508	67,072	382,580	-	2,439,844
13,306,172	2,754,728	16,060,900	4,235,792	133,642,623
107,428	17,268	124,696	-	1,218,280
5,431	1,086	6,517	-	54,313
$ 13,419,031	$ 2,773,082	$ 16,192,113	$ 4,235,792	$ 134,915,216

Metropolitan Family Services

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Programs				
	Emotional Wellness	Empowerment	Education	Economic Stability	Total Program
Salaries	$ 15,835,874	$ 6,118,381	$ 13,430,563	$ 5,574,108	$ 40,958,926
Payroll taxes and benefits	3,773,101	1,374,373	3,098,670	1,281,920	9,528,064
Professional fees and subcontractor payments	4,088,330	17,315,313	1,850,947	2,861,588	26,116,178
Financial assistance	2,395,638	179,129	79,360	997,355	3,651,482
Occupancy	1,209,206	712,793	1,165,317	544,668	3,631,984
Equipment rental and maintenance	1,056,036	487,313	627,225	462,987	2,633,561
Other program expenses	1,638,048	853,848	3,318,553	781,573	6,592,022
Telephone and communication	603,144	260,067	338,942	239,983	1,442,136
	30,599,377	27,301,217	23,909,577	12,744,182	94,554,353
Depreciation and amortization allocation	260,649	288,465	274,263	107,320	930,697
Net periodic benefit income	1,266,040	1,091,414	960,444	523,879	3,841,777
	$ 32,126,066	$ 28,681,096	$ 25,144,284	$ 13,375,381	$ 99,326,827

See notes to consolidated financial statements.

Support Services				
Management and General	Fund Raising	Total Support Services	In-Kind Contributions	2022 Total Agency
$ 5,472,190	$ 1,394,972	$ 6,867,162	$ -	$ 47,826,088
1,325,220	331,721	1,656,941	-	11,185,005
1,929,266	75,259	2,004,525	3,245,671	31,366,374
23,665	-	23,665	-	3,675,147
554,126	326,947	881,073	-	4,513,057
72,139	23,372	95,511	-	2,729,072
558,265	121,987	680,252	-	7,272,274
525,984	123,476	649,460	-	2,091,596
10,460,855	2,397,734	12,858,589	3,245,671	110,658,613
106,999	19,691	126,690	-	1,057,387
436,566	87,313	523,879	-	4,365,656
$ 11,004,420	$ 2,504,738	$ 13,509,158	$ 3,245,671	$ 116,081,656

Metropolitan Family Services

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Increase in net assets	**$ 7,124,702**	$ 4,505,655
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Howard Area Community Center net assets acquired	**(3,278,837)**	-
I GROW Chicago net assets transferred (acquired)	**2,988,376**	(2,988,376)
Change in market value of interest rate swap	**(777,918)**	(1,530,003)
Change in market value of beneficial interest in perpetual trusts	**(574,877)**	3,216,754
Net realized and unrealized (gain) loss on investments	**(2,088,060)**	6,369,532
Reduction in carrying amount of operating lease right-of-use assets	**733,766**	-
Cash paid for operating leases	**(698,772)**	-
Depreciation and amortization	**1,218,280**	1,057,387
Forgiveness of Paycheck Protection Program loan	**-**	(9,670,157)
Changes in operating assets and liabilities:		
Receivables	**(6,998,565)**	(5,055,324)
Prepaid expenses	**(385,686)**	(12,821)
Accounts payable and accrued expenses	**(53,616)**	136,960
Refundable advances	**1,749,895**	998,584
Funds held in custody for others	**935**	8,111
Accrued pension activity	**(593,577)**	(2,204,922)
Net cash used in operating activities	**(1,633,954)**	(5,168,620)
Cash flows from investing activities:		
Proceeds from sale of investments	**1,929,492**	3,099,930
Purchases of investments	**(1,847,155)**	(990,654)
Cash paid in exchange for leveraged loan receivable	**-**	(2,212,849)
Purchases of property and equipment	**(4,297,689)**	(6,297,953)
Net cash used in investing activities	**(4,215,352)**	(6,401,526)
Cash flows from financing activities:		
Proceeds from issuance of unsecured investment bond	**6,000,000**	-
Proceeds from issuance of NMTC notes payable	**-**	11,000,000
Payment of debt issuance costs	**-**	(721,369)
Cash acquired from Howard Area Community Center	**2,953,427**	-
Net cash provided by financing activities	**8,953,427**	10,278,631
Increase (decrease) in cash and restricted cash	**3,104,121**	(1,291,515)
Cash and restricted cash:		
Beginning of year	**12,219,965**	13,511,480
End of year	**$ 15,324,086**	$ 12,219,965
Cash and restricted cash:		
Cash	**$ 8,599,942**	$ 5,725,046
Restricted cash	**6,724,144**	6,494,919
Total cash and restricted cash	**$ 15,324,086**	$ 12,219,965
Supplemental disclosure of cash flow information:		
Howard Area Community Center transaction		
Assets acquired	**$ 6,491,705**	$ -
Liabilities assumed	**(2,443,349)**	-
	4,048,356	-
Less cash acquired	**(2,953,427)**	-
Noncash net assets acquired	**$ 1,094,929**	$ -
Noncash consideration exchanged (effective settlement of intercompany note payable)	**$ (769,519)**	$ -
Interest paid	**$ 953,456**	$ 852,720

See notes to consolidated financial statements.

Note 1. Nature of Activities

Metropolitan Family Services (the Agency), a not-for-profit Illinois corporation, is a nonsectarian human services agency located in metropolitan Chicago, Illinois. The Agency was organized to provide a wide range of programs and services to strengthen low and moderate-income individuals, families and communities. The Agency is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and applicable state law.

Family Shelter Services (FSS): In April 2019, FSS transferred its assets and liabilities, and board governance to the Agency. In September 2021, the Agency utilized the FSS corporate entity to facilitate a New Markets Tax Credit (NMTC) transaction for the Midway and Jones Centers projects.

Howard Area Community Center (HACC): In November 2022, HACC amended its bylaws to become a membership nonprofit corporation and made the Agency the sole member. As a result, the Agency has control and economic interest in HACC, requiring the Agency to include HACC in its consolidated financial statements, beginning on November 1, 2022. The consolidated statement of activities for fiscal year 2023 reflects an increase to net assets for an inherent contribution, equal to the amount of HACC net assets acquired. HACC's mission is to serve low-income individuals and families in the Rogers Park neighborhood of Chicago and surrounding community to stabilize their lives and to help develop the social skills necessary to become effective community members. HACC's programs include early childhood education, adult employment and education, and other health and emergency case management services.

I GROW Chicago (I GROW): In October 2021, I GROW transferred its board governance to the Agency. The transaction was the result of the shared belief that the Agency could serve as a steward of the organization while a larger partnership of other Englewood nonprofit organizations (unrelated to the Agency) was being formed. This larger partnership, named "Imagine Englewood If", was established on July 31, 2022 at which time the Agency transferred the board governance of I GROW to Imagine Englewood If. The Agency's board governance responsibilities for the 10-month period from October 1, 2021 through July 31, 2022 represent control and economic interest in I GROW, and therefore the Agency's consolidated financial statements for fiscal year 2023 and 2022 include the balances and activities of I GROW for one month and nine months, respectively, for the 10-month period. The consolidated statements of activities for fiscal years 2023 and 2022 also reflect an increase to net assets and a decrease to net assets, respectively, representing an inherent contribution, equal to the amount of I GROW net assets acquired, and then divested, at the respective transfer dates.

FSS, I GROW and HACC are all nonprofit corporations exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and applicable state law.

Note 2. Summary of Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of the Agency and its affiliates, FSS, I GROW and HACC. Any significant intercompany balances and transactions have been eliminated in consolidation. The Agency as used in these financial statements refers to Metropolitan Family Services individually, or collectively with consolidated affiliates, as the context may require.

Basis of presentation: The Agency's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to nonprofit organizations.

Note 2. Summary of Significant Accounting Policies (Continued)

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Agency's program services. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Accounting standards: The Agency follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial position, results of activities and cash flows. References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification (ASC), sometimes referred to as the Codification or ASC.

Use of estimates: The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: The majority of funding for the Agency's activities is provided by governmental agencies. The Agency recognizes program revenues in the fiscal year that the services are rendered. Unconditional contribution revenues and other support are recognized in the fiscal year that the promises to give are received. Grant revenue is recognized as qualifying expenditures are incurred and other grant requirements are met. The Agency has elected the simultaneous release policy for government grants, which allows the Agency to recognize restricted conditional contributions directly in net assets without donor restrictions when the condition is met, which is generally when qualifying expenditures have been incurred. Deferred revenue is recorded when cash has been received but qualifying expenditures have not yet been incurred. Those amounts will be subject to recognition as the Agency incurs qualifying expenditures and performs its duties under the terms of the grant agreements.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and are presented by natural and functional classification in the statement of functional expenses. The Agency tracks expenses, including salaries and benefits, by department. Departments are allocated to the expense categories listed on the statements of activities. Those departments linked to a program are further analyzed to determine if some aspects of an expense have an administrative or fundraising component. If an expense can be identified with either a fundraising or administrative function, it will be charged directly to that category. Accordingly, management has developed and uses estimates to allocate certain costs among the programs and supporting activities benefited. The expenses that are allocated include salaries, payroll taxes and benefits, pension related activity, occupancy, other program expenses, depreciation, and amortization, which are allocated by department headcounts.

Cash: It is usual and customary for the Agency to have cash on deposit in multiple financial institutions exceeding the federally insured limits. The Agency has not experienced any losses in such accounts and management does not believe there is a credit risk of loss associated with these accounts.

Restricted cash: Cash in restricted construction accounts represent unspent cash from the NMTC transaction and is reflected as restricted cash on the consolidated statement of financial position. Its use is restricted to the Midway and Jones Centers Project and the disbursements are subject to a blocked account agreement.

Note 2. Summary of Significant Accounting Policies (Continued)

Government grant receivables: The Agency has outstanding receivables from various government grants. Management recorded an allowance for doubtful accounts totaling approximately $243,000 and $776,000 at June 30, 2023 and 2022, respectively, based on specific identification of uncollectible accounts and historical collection experience.

Investments: Investments, including the invested assets of irrevocable perpetual trusts, are recorded at fair value. Realized gains and losses are determined based on the average cost method. Changes in fair value are recorded as unrealized gains (losses). Investment fees are netted against investment gains.

The Agency invests in a professionally managed portfolio of mutual funds and alternative investments. Such investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Property and equipment: Property and equipment is carried at cost, except donated assets which are recorded at fair value at date of donation. All purchases in excess of $5,000 are capitalized, while lesser amounts are charged to expense. Assets retired or otherwise disposed of are removed from the accounts at their net carrying amount. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets or terms of the related leases (40 years for buildings, five years for furniture and equipment and two to seven years for leasehold improvements).

Beneficial interest in irrevocable perpetual trusts: The Agency is an income beneficiary of certain irrevocable perpetual trusts established by donors and administered by certain third-party agencies. Income allocations from such trusts have no restriction on their use and are recognized as revenue when received from the third-party agencies. The Agency's beneficial interest in the assets of irrevocable perpetual trusts are recorded at fair value in the statement of financial position based on the fair value of the underlying trust assets.

Deferred revenue: The Agency recognizes grants as revenue when qualifying expenses are incurred. Amounts received in advance are recorded as deferred revenue when qualifying expenditures are not yet incurred.

Leases: Prior to July 1, 2022, the Agency followed the lease accounting guidance in FASB Accounting Standards Codification (ASC) Topic 840. Effective July 1, 2022, the Agency follows the lease accounting guidance in FASB ASC Topic 842. The Agency determines if an arrangement is a lease at inception of the contract. Under Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Agency's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Agency has the right to obtain substantially all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term.

Leases are classified as either operating or finance. The Agency currently has only operating leases. For operating leases, the Agency recognizes a lease liability equal to the present value of the remaining lease payments, and a right-of-use (ROU) asset equal to the lease liability, subject to certain adjustments, such as for prepaid rents and other lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Agency will exercise such option. When the rate implicit in the lease is not readily determinable, the Agency has made a policy election to use a risk-free rate, based on the United States Treasury rates, to determine the present value of the lease payments for all classes of assets.

Note 2. Summary of Significant Accounting Policies (Continued)

The Agency defines a short-term lease as any lease arrangement with an original lease term of 12 months or less that does not include an option to purchase the underlying asset. The Agency has made a policy election to not recognize ROU assets and lease liabilities for short-term leases. As a result, short-term lease payments are recognized as expense on a straight-line basis over the lease term, and variable lease payments are recognized in the period in which the obligation is incurred.

For lease arrangements with lease and non-lease components, the Agency has made a policy election to account for lease and non-lease components, separately, for all classes of assets.

Certain of the Agency's leases also include variable lease costs. These variable payments typically represent additional services transferred to the Agency, such as overage charges for related services and these are recorded as an expense in the period incurred. The Agency's lease agreements do not contain any residual value guarantees or restrictive covenants.

Paycheck Protection Program forgivable loan: The Agency applied for and received a loan from the Paycheck Protection Program, a loan program administered through the Small Business Administration, in conjunction with the Coronavirus Aid, Relief, and Economy Security Act (CARES Act) in fiscal year 2021. The loan was in the amount of $9,670,157 and was recorded as a refundable advance. In March 2022, the Agency received full forgiveness of the loan. The statement of activities reflects nonoperating revenue of $9,670,157 for the fiscal year ended June 30, 2022, related to this loan forgiveness.

Derivative financial instruments: The Agency has an interest rate swap agreement with the objective of minimizing the variability of cash flows. This derivative financial instrument is recognized as either an asset or liability at fair value in the consolidated statement of financial position (interest rate swap) with the changes in the fair value reported on the consolidated statement of activities (change in market value of interest rate swap). For the years ended June 30, 2023 and 2022, the Agency recognized a gain of $777,918 and $1,530,003, respectively, for changes in the fair value of the instrument.

Debt issuance costs: Debt issuance costs include various incremental fees and commissions paid to third parties in connection with the issuance of notes payable, related to the NMTC transaction and are deferred and amortized over the term of the notes. Notes payable are presented on the consolidated statement of financial position net of the unamortized debt issuance costs.

Net assets: Net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets without donor restrictions are resources whose use has no limitations imposed by outside donors.

Net assets with donor restrictions: Net assets with donor restrictions are subject to donor-imposed restrictions that may or will be met by the Agency or the passage of time. When a donor restriction expires (that is, when a stipulated time restriction ends or the purpose for which the contributions were restricted is fulfilled), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the Agency reports the support as net assets without donor restrictions. In the absence of donor-imposed restrictions on the use of the assets, contributions of long-lived assets are reported as increases in net assets without donor restrictions. The Agency has beneficial interests in certain irrevocable perpetual trusts, for which the principal must remain intact per donor request and related income allocations are classified as without donor restrictions.

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions: Unconditional promises of others to give cash and other assets to the Agency are recorded at fair value at the date the promise is made and reported as increases in either net assets without donor restrictions or net assets with donor restrictions, if they are received with donor stipulations that limit the use of the contributions. Conditional contributions are not recognized as revenue until conditions are satisfied, which occurs when performance barriers are met.

In-kind contributions: For the years ended June 30, 2023 and 2022, contributed nonfinancial assets include various professional services. These contributed services are valued and reported at the estimated fair value in the financial statements based on discounted current market rates for similar services. The contributed professional services were utilized to support the Agency's legal aid and Head Start programs.

Income taxes: The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Agency may recognize the tax benefit from an uncertain tax position only if it is more than likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Agency and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the reporting periods presented in the financial statements.

The Agency and HACC file Form 990s in the U.S. federal jurisdiction and the State of Illinois.

Accounting pronouncement adopted: The guidance in Accounting Standards Update (ASU) 2016-02, *Leases* (*Topic 842*) supersedes the leasing guidance in FASB ASC Topic 840*,* Leases*,* which is intended to increase transparency and comparability among organizations related to their leasing arrangements. The new lease standard, including all the related amendments subsequent to its issuance, supersedes the current guidance for lease accounting and requires lessees to recognize a ROU asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term for substantially all leases, as well as disclose key quantitative and qualitative information about leasing arrangements.

The Agency adopted ASU 2016-02 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition provision, the Agency has applied ASU 2016-02 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the legacy guidance under ASC Topic 840, Leases, (ASC 840). The adoption did not result in a cumulative-effect adjustment to the opening balance of net assets.

In addition to policy election choices, FASB ASC Topic 842 includes practical expedient choices. The Agency elected the package of practical expedients available in the standard and as a result, did not reassess the lease classification of existing leases, whether a preexisting contract is deemed to be or to include a lease or the initial direct costs associated with existing leases. The Agency did not elect the hindsight practical expedient, and so did not re-evaluate lease terms for existing leases and will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on July 1, 2022.

Adoption of the new lease standard resulted in the recording of operating lease ROU assets of approximately $9,488,000 and operating lease liabilities of approximately $9,918,000 as of July 1, 2022.

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent events: The Agency has evaluated all other subsequent events for potential recognition and/or disclosure through January 18, 2024, the date the financial statements were available to be issued.

Subsequent to year end, the Agency received approximately $4,500,000 in Employee Retention Tax Credits, including interest of approximately $325,000. This tax credit program was established as part of the Coronavirus Aid, Relief and Economy Security Act (CARES Act) for businesses including nonprofits meeting certain criteria. The credits represent refunds for payroll taxes paid for various quarters in 2020 and 2021 and will be recognized as revenue upon satisfaction of certain conditions, expected to occur in fiscal year 2024.

Note 3. Fundraising Contributions Receivable

Contributions receivable at June 30, 2023 and 2022, amount to $531,778 and $530,605, respectively, and are anticipated to be collected in the subsequent year. Management recorded an allowance for doubtful accounts totaling approximately $75,000 and $100,000 at June 30, 2023 and 2022, respectively, based on specific identification of uncollectible accounts and historical collection experience.

Note 4. Investments and Beneficial Interest in Irrevocable Perpetual Trusts

The Agency's investments at June 30, 2023 and 2022, are as follows:

	2023	2022
Cash	$ 8,192	$ 318,457
Equity securities	22,306,049	20,079,458
Fixed income securities	5,619,042	6,235,576
Alternative investments	16,325,730	15,619,799
	$ 44,259,013	$ 42,253,290

The Agency is also a designated income beneficiary of certain irrevocable perpetual trusts. The terms of the trust agreements provide that the Agency, as an income beneficiary, is to receive its beneficial interest in the income of the trust assets as earned in perpetuity. Such trust assets are held and invested in perpetuity by the third-party trustees, which are financial institutions, principally in marketable equity securities and bonds and notes.

Note 4. Investments and Beneficial Interest in Irrevocable Perpetual Trusts (Continued)

Total return (loss) on investments and beneficial interests during 2023 and 2022 is summarized as follows:

2023	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest income	$ 543,907	$ 522,577	$ 1,066,484
Net realized and unrealized gain	1,561,977	2,075,600	3,637,577
Investment expense	(190,293)	(182,831)	(373,124)
Net gain on investments	$ 1,915,591	$ 2,415,346	$ 4,330,937
As reflected on statement of activities:			
Investment return designated for:			
Payout for operations	$ 850,680	$ 817,320	$ 1,668,000
Undesignated investment gain	1,064,911	1,598,026	2,662,937
Total	$ 1,915,591	$ 2,415,346	$ 4,330,937
Income allocations from trusts	$ 534,651	$ -	$ 534,651

2022	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest income	$ 1,078,817	$ 1,036,510	$ 2,115,327
Net realized and unrealized losses	(3,248,460)	(6,337,825)	(9,586,285)
Investment expense	(215,958)	(207,489)	(423,447)
Net loss on investments	$ (2,385,601)	$ (5,508,804)	$ (7,894,405)
As reflected on statement of activities:			
Investment loss designated for:			
Payout for operations	$ 850,680	$ 817,320	$ 1,668,000
Undesignated investment loss	(3,236,281)	(6,326,124)	(9,562,405)
Total	$ (2,385,601)	$ (5,508,804)	$ (7,894,405)
Income allocations from trusts	$ 983,748	$ -	$ 983,748

Investment return, with donor restrictions, includes appreciation in the value of beneficial interests in irrevocable perpetual trusts.

Note 5. Fair Value Disclosures

The Fair Value Measurements and Disclosures Topic of the Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Agency uses various methods including market, income and cost approaches and sets out a fair value hierarchy. Based on these approaches, the Agency often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Agency utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Agency is required to provide the following information according to the fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Topic as assumptions market participants would use in pricing an asset or liability.

The three levels of the fair value hierarchy under the Topic are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices within Level 1 that, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.

Level 3: Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the highest level of input that is significant to the fair value measurement. The Agency's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Agency considers factors specific to the investment.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

For the fiscal years ended June 30, 2023 and 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent. There were unfunded commitments in the amount of $2,227,450 and $1,803,085 at June 30, 2023 and 2022, respectively. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment securities: The fair value of publicly traded equity and fixed income securities is based upon market quotations of national security exchanges. These financial instruments are classified as Level 1 in the fair value hierarchy.

Note 5. Fair Value Disclosures (Continued)

Alternative investments: Investments in certain hedge funds and real estate funds are valued at fair value based on the applicable percentage ownership of the underlying companies' net assets as of the measurement date, as determined by the fund manager. In determining fair value, the fund manager utilizes valuations provided by the underlying investment companies. The underlying investment companies value securities and other financial instruments on a fair value basis of accounting. The fair value of the Agency's investments in private investment companies generally represent the amount the Agency would expect to receive if it were to liquidate its investment in the companies excluding any redemption charges that may apply. These investments are measured using the net asset value as the practical expedient.

Beneficial interest in perpetual trusts: The fair value of the Agency's beneficial interest in perpetual trusts were provided by the trustee. The trustee determines fair value based on readily available pricing sources for market transactions involving identical assets for securities. The valuations include certain unobservable inputs and are, therefore, classified as Level 3 in the fair value hierarchy.

Interest rate swap: The valuation of this instrument is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and used observable market-based inputs, including the SIFMA index. The fair value estimate is classified as Level 2.

The following tables present the Agency's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2023 and 2022:

	2023				
	Total	Level 1	Level 2	Level 3	Valued Using Net Asset Value (a)
Assets:					
Equity securities:					
U.S. equities	$ 11,653,369	$ 11,653,369	$ -	$ -	$ -
Non-U.S. equities	10,652,680	10,652,680	-	-	-
Fixed income securities:					
U.S. fixed income	4,032,312	4,032,312	-	-	-
Non-U.S. fixed income	1,586,730	1,586,730	-	-	-
Alternative investments:					
Hedge fund of funds (b)	11,394,265	-	-	-	11,394,265
Real estate fund (c)	4,931,465	-	-	-	4,931,465
	44,250,821	$ 27,925,091	$ -	$ -	$ 16,325,730
Cash	8,192				
Total investments	$ 44,259,013				
Beneficial interest in perpetual trusts (d)	$ 17,231,042	$ -	$ -	$ 17,231,042	$ -
Liability:					
Interest-rate swap	$ 945,488	$ -	$ 945,488	$ -	$ -

Note 5. Fair Value Disclosures (Continued)

	2022				
	Total	Level 1	Level 2	Level 3	Valued Using Net Asset Value (a)
Assets:					
Equity securities:					
U.S. equities	$ 10,150,961	$ 10,150,961	$ -	$ -	$ -
Non-U.S. equities	9,928,497	9,928,497	-	-	-
Fixed income securities:					
U.S. fixed income	6,235,576	6,235,576	-	-	-
Non - U.S. fixed income					
Alternative investments:					
Hedge fund of funds (b)	10,866,898	-	-	-	10,866,898
Real estate fund (c)	4,752,901	-	-	-	4,752,901
	41,934,833	$ 26,315,034	$ -	$ -	$ 15,619,799
Cash and other	318,457				
Total investments	$ 42,253,290				
Beneficial interest in perpetual trusts (d)	$ 16,656,165	$ -	$ -	$ 16,656,165	$ -
Liability:					
Interest-rate swap	$ 1,723,407	$ -	$ 1,723,407	$ -	$ -

(a) Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

(b) This category includes investments in hedge funds that invest primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments to meet growth strategies. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. There are no unfunded commitments related to these investments at June 30, 2023 or 2022. The redemption frequency for these funds is quarterly.

(c) This category includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this category have been estimated using the net asset value of the Agency’s ownership interest. There are $2,227,450 and $1,803,085 of unfunded commitments related to these investments at June 30, 2023 and 2022, respectively. The redemption frequency for these funds is quarterly.

(d) This category includes underlying investments in equities, fixed income securities, real estate funds and hedge funds. The fair value of these investments is based on quoted market prices provided by recognized broker-dealers.

Note 6. Leveraged Loan Receivable

In September 2021, the Agency made a leveraged loan to a qualified equity investment fund (QEI) linked to the Agency's financing obtained through the NMTC program.

The loan accrues interest at a fixed rate, with interest-only payable quarterly at a rate of 1% over the first seven years (Compliance Period); quarterly principal and interest payments are then required through 2036.

The leveraged loan receivable outstanding balance at both June 30, 2023 and 2022, was as follows:

Chase NMTC MFS Investment Fund, LLC with interest accruing at an annual rate of 1%; 1% interest-only quarterly payments are due through September 2028, and then principal and interest payments of $76,654 are due quarterly through maturity in June 2036.	$ 2,212,849

After the Compliance Period, there are put and call agreements between the Agency and the investor in the QEI Fund. It is anticipated that the NMTC investor will put their option and the Agency will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. This action will essentially result in forgiveness of these loans as well as extinguishment of the Agency's related debt (Note 10). Interest income was $22,436 and $16,596 for the years ended June 30, 2023 and 2022, respectively.

The Agency funded the above loan by paying $841,828 in cash and contributing $1,371,021 in qualified reimbursable costs previously expended for the project in the fiscal year ended June 30, 2022.

Note 7. Property and Equipment

Property and equipment are as follows at June 30, 2023 and 2022:

	2023	2022
Land	$ 6,147,926	$ 3,718,766
Buildings and improvements	34,617,236	27,807,537
Leasehold improvements	2,327,872	2,327,872
Furniture and equipment	3,791,762	2,659,415
Construction in progress	-	3,493,517
	46,884,796	40,007,107
Less accumulated depreciation	15,194,568	14,036,296
	$ 31,690,228	$ 25,970,811

Construction in progress at June 30, 2022 represented costs for renovation and construction of the Midway and Jones Centers. Construction for both properties was substantially completed as of June 30, 2023 and related costs were transferred to land and buildings and improvements.

Remaining costs to complete construction as of June 30, 2023 are expected to be approximately $1,400,000. Property and equipment related to HACC were also acquired in fiscal year 2023.

Depreciation expense totaled $1,158,272 and $1,010,211 for 2023 and 2022, respectively.

Note 8. Unsecured Investment Bonds and Lines of Credit

The Agency finances its working capital under a long-term unsecured investment bonds. A $2,500,000 bond has a five-year term, maturing on October 6, 2026, with interest charged at a rate of 1/10 of 1% per annum. The full amount was outstanding at June 30, 2023 and 2022.

On November 30, 2022, the Agency obtained another long-term unsecured investment bond, issued to a bank ,in the amount of $6,000,000. Interest is due semi-annually at a rate of 0.5% per annum and the bond is payable in full in November 2027. Occurrence of a mandatory redemption event would require earlier repayment. The full amount was outstanding at June 30, 2023.

These unsecured investment bonds include certain covenants, primarily reporting requirements.

The Agency has an available revolving line of credit agreement in the amount of $10,000,000. Interest on borrowings is accrued monthly at either the prime rate or the LIBOR rate plus 115 basis points. The weighted average interest rate for fiscal years 2023 and 2022 was 3.78% and 2.76%, respectively. There was no balance outstanding on the line at June 30, 2023 and 2022.

Interest expense under these financing arrangements totaled $5,562 and $14,131 for the years ended June 30, 2023 and 2022, respectively.

Note 9. Bonds Payable

Bonds payable are summarized as follows at June 30, 2023 and 2022:

	2023	2022
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds, Series 1999, maturing in the aggregate principal amount on January 1, 2029	$ 12,700,000	$ 12,700,000

In March 1999, the Illinois Development Finance Authority (Authority) on behalf of the Agency issued its Variable Rate Demand Revenue Bonds, Series 1999, in the principal amount of $12,700,000 pursuant to an Indenture of Trust dated as of March 1, 1999, between the Authority and the Trustee. The proceeds of the Series 1999 bonds were used to finance all or a portion of the cost of acquisition, construction, renovation, expansion, restoration, and equipping of certain facilities of the Agency and to reimburse the Agency for certain capital projects, provide a portion of the interest on the bonds, and pay certain expenses incurred in connection with the issuance of the bonds. The Agency’s refinancing arrangement with a bank makes the bank the sole holder of the bonds through June 3, 2024.

Subsequent to year end, on October 2, 2023, the Agency repaid the Series 2012 bond obligation, in its entirety. This payment was made in the amount of $12,700,000. A related interest rate swap was also terminated which required an additional payment of approximately $664,000 and resulted in a recognized loss of approximately $280,000. Accounting for these transactions will be reflected in the fiscal year 2024 consolidated financial statements.

The Series 1999 Bonds bore interest at a variable interest rate determined on a monthly basis. Interest rates ranged from 2.32% to 5.17% and from 1.02% to 1.80% during the years ended June 30, 2023 and 2022, respectively, and was determined on a monthly basis.

Note 9. Bonds Payable (Continued)

The terms of the long-term debt agreement required, among other things, the maintenance of specific financial ratios and place limitations on additional indebtedness and pledging of assets. The Agency did not meet a specific financial ratio covenant related to the Series 2012 bonds during the fiscal year ended June 30, 2023 but obtained a waiver from the bank.

The interest rate swap agreement with a bank provided for a non-amortizing notional amount of $12,700,000 with an objective to minimize the variability of cash flows. The Agency received monthly payments based upon a variable rate of interest and made monthly payments based upon a fixed rate of 4.295%. The variable rate of interest was based on the USD-LIBOR-BBA which ranged from 1.53% to 5.07% and from 0.08% to 1.06% during the years ended June 30, 2023 and 2022, respectively, and was determined on a monthly basis. Although the derivative was an interest rate hedge, the Agency elected not to account for the derivatives as “cash-flow” hedge instruments, as defined by U.S. GAAP, and therefore, the gain or loss on the derivative was recognized in the statement of activities as a component of nonoperating revenue (expense) in the period of change.

Net interest paid or received under the swap agreement was included in interest expense. The net differential paid by the Agency as a result of the swap agreement amounted to $199,305 and $520,742 for the years ended June 30, 2023 and 2022, respectively. The change in fair value of the swap agreement was an unrealized gain of $777,918 and $1,530,003 in 2023 and 2022, respectively.

Interest expense including amounts paid under the swap agreement totaled $728,114 and $673,144 for the years ended June 30, 2023 and 2022, respectively.

The fair value of the interest rate swap agreement, reflected as a liability on the statements of financial position, was $945,488 and $1,723,407 at June 30, 2023 and 2022, respectively.

Interest expense and change in fair value of interest rate swap are reported within the financial statements as follows:

	2023	2022
Operating:		
Occupancy	$ 733,676	$ 687,275
Nonoperating:		
Change in fair value of interest rate swap	(777,918)	(1,530,003)
	$ (44,242)	$ (842,728)

Note 10. NMTC Notes Payable

In September 2021, FSS obtained financing in an arrangement structured under the NMTC program. This program, enacted by Congress as part of the Community Renewal Tax Relief Act of 2000, permits individual and corporate taxpayers to receive a credit against federal income taxes for making a quality equity investment (QEI) in qualified community development entities (CDEs). The CDEs used substantially all of each QEI to make qualified low-income community investment (QLICI) loans on favorable terms to FSS as a qualified active low-income community business (QALICB). These loans were made to FSS by the CDEs on September 30, 2022. Related outstanding NMTC notes payable include the following as of June 30, 2023 and 2022, respectively:

	2023	2022
Urban Development Fund QLICI Loan A-1	$ 2,457,464	$ 2,457,464
Urban Development Fund QLICI Loan A-2	2,212,849	2,212,849
Urban Development Fund QLICI Loan B	1,912,500	1,912,500
Urban Development Fund QLICI Loan C	917,187	917,187
Chase New Markets Corporation QLICI Loan A	1,725,500	1,725,500
Chase New Markets Corporation QLICI Loan B	955,500	955,500
Chase New Markets Corporation QLICI Loan C	819,000	819,000
	11,000,000	11,000,000
Less unamortized debt issuance costs	(631,543)	(682,872)
	$ 10,368,457	$ 10,317,128

FSS used some proceeds from the loans to purchase certain assets from the Agency and to begin construction of the Midway and Jones Centers project (Note 17).

All loans have a maturity date of December 31, 2055, with exception of the Urban Development Fund QLICI Loan A-1 and the Chase New Markets Corporation QLICI Loan A that both mature on November 30, 2028. Applicable Interest rates are 2.00% on all the loans. Quarterly interest payments commenced in December 2021. Interest expense of $219,780 and $165,445 are included in other program expenses for the fiscal years ended June 30, 2023 and 2022, respectively.

The first seven years of the notes are defined as the “Compliance Period.” Only interest is paid during the Compliance Period. Thereafter, the loans are amortized with principal and interest payments required through the maturity date in fiscal year 2055. The loans can be repaid any time after the Compliance Period.

There are put and call agreements between FSS and the investor in the QEI funds (which has ownership interest in the CDEs making the loans above). If the investor does not exercise their put option, FSS has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investor will put their option and the Agency will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. By acquiring the ownership interests, FSS would be in a position whereby it can forgive the NMTC notes payable, resulting in a substantial reduction in outstanding debt at that point in time and realization of the benefits from the NMTC program (in turn, it is expected that FSS would forgive the NMTC notes receivable (Note 6)). The loans are collateralized by essentially all FSS property and equipment.

Note 11. Restricted Net Assets

Restricted net assets are as follows at June 30, 2023 and 2022:

	2023	2022
Purpose related restrictions:		
Accumulated investment return on endowments	$ 18,886,785	$ 17,863,636
Community services	3,562,896	2,309,364
Financial assistance	2,899	13,244
I Grow Chicago	-	736,016
Howard Area Community Center	125,065	-
	22,577,645	20,922,260
To be held in perpetuity:		
Beneficial interest in irrevocable perpetual trusts invested in perpetuity by third-party trustees, the income from which is expendable to support any of the activities of the Agency	17,231,042	16,656,165
Donor endowment invested in perpetuity by the Agency, the income from which is expendable to support any of the activities of the Agency	5,411,375	5,411,375
Donor endowment invested in perpetuity by the Agency, the income from which is expendable to support specific programs as restricted by the donor	175,016	175,016
	22,817,433	22,242,556
	$ 45,395,078	$ 43,164,816

Note 12. Endowment Funds

The Agency’s endowment includes donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

1. The duration and preservation of the fund

2. The purpose of the Agency and the donor-restricted endowment fund

3. General economic conditions

Note 12. Endowment Funds (Continued)

4. The possible effect of inflation and deflation

5. The expected total return from income and the appreciation of investments

6. Other resources of the Agency

7. The investment policies of the Agency

The Agency's endowment net asset composition by type of fund is as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Net assets with donor restrictions (temporary in nature)	$ 18,886,785	$ 17,863,636
Net assets with donor restrictions (to be held in perpetuity)	5,586,391	5,586,391
	$ 24,473,176	$ 23,450,027

The changes in endowment net assets for the Agency were as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Endowment net assets, beginning of year	$ 23,450,027	$ 26,559,397
Investment return:		
Dividends and interest income	522,577	1,036,510
Net realized and unrealized gain (loss)	1,500,723	(3,121,071)
Investment expense	(182,831)	(207,489)
	1,840,469	(2,292,050)
Appropriation of endowment assets:		
Payout for operations	(817,320)	(817,320)
Investment return (loss)	1,023,149	(3,109,370)
Endowment net assets, end of year	$ 24,473,176	$ 23,450,027

The Agency's beneficial interest in irrevocable perpetual trusts is externally managed and is therefore not included in the endowment tables above.

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Illinois UPMIFA requires the Agency to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2023 and 2022.

The Agency has adopted investment and spending policies for endowment assets as follows:

Investment policy: The Agency's endowment fund investments and other investments without donor restrictions continue to be professionally managed in a single investment pool under the oversight of the Agency's Board of Directors and Investment Committee.

Note 12. Endowment Funds (Continued)

The Agency's investment policy is to achieve the highest rate of return possible within an acceptable range of risk and volatility. Based on that objective, the current assumptions are that long-term returns net of expenses will average 7% and long-term inflation will average 3%.

The Agency's Investment Committee has the responsibility to establish the policies that guide the specific investments of the endowment assets. The policies describe the degree of investment risk and diversification that the committee deems appropriate.

The committee, in consultation with its investment consultant, monitors the performance of investment managers and adds, replaces or eliminates managers as needed.

Spending policy: Endowment spending is set annually by the Agency's Board of Directors after considering the funding needs of current Agency operations and the desire to preserve the long-term purchasing power of the Endowment. Distributions are authorized by the Board based on recommendations of the Investment Committee and Finance Committee. Payout for operations as reflected on the statement of activities in both fiscal years 2023 and 2022 of $1,668,000 consists of amounts appropriated from the endowment of $817,320 and amounts funded by other investments without donor restrictions of $850,680.

Note 13. Pension Plan

The Agency operates a trusted, noncontributory, defined-benefit pension plan (Plan). On December 31, 2012, the Agency implemented a full plan freeze for all employees.

During fiscal year 2022, a lump sum window was offered to vested terminated participants with payments occurring on June 30, 2022 to those electing payment. The plan also purchased an annuity contract in June 2022 to administer and pay all the future monthly benefits of retirees and beneficiaries who had commenced their benefit payments. These transactions triggered settlement accounting, with the settlement measured as of June 30, 2022.

The Projected Benefit Obligation is the actuarial present value of benefits under the plan formula, based on employee service to date and expected future compensation levels.

The Accumulated Benefit Obligation is the actuarial present value of benefits earned to date, based on current and past compensation levels.

Note 13. Pension Plan (Continued)

A summary of the changes in the projected benefit obligation and plan assets and the resulting funded status of the defined-benefit pension plan are as follows at June 30, 2023 and 2022:

	2023	2022
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 5,332,051	$ 26,051,210
Interest cost	227,128	640,454
Plan charges	-	(57,825)
Actuarial gains	(384,839)	(3,448,553)
Benefits paid	(234,192)	(1,745,357)
Settlements	-	(16,107,878)
Projected benefit obligation at year-end	$ 4,940,148	$ 5,332,051
Accumulated benefit obligation	$ 4,940,148	$ 5,332,051
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 4,787,732	$ 23,301,969
Actual return (loss) on plan assets	435,866	(3,078,994)
Contributions	-	2,417,992
Benefits paid	(234,192)	(1,745,357)
Settlements	-	(16,107,878)
Fair value of plan assets at year-end	$ 4,989,406	$ 4,787,732
Fair value of plan assets	$ 4,989,406	$ 4,787,732
Benefit obligations	4,940,148	5,332,051
Funded status (plan assets less benefit obligations)	$ 49,258	$ (544,319)
Amounts recognized on statement of financial position as accrued pension asset (liability)	$ 49,258	$ (544,319)

Note 13. Pension Plan (Continued)

	2023	2022
Cumulative amounts not yet recognized in net periodic cost, but charged to net assets at June 30, 2023 and 2022:		
Beginning cumulative amount	$ 1,535,774	$ 5,688,360
Less: current year increase to net assets	(647,890)	(4,152,586)
	$ 887,884	$ 1,535,774
Unrecognized actuarial loss not yet recognized in net periodic cost, but charged to net assets as of June 30, 2023 and 2022	$ 887,884	$ 1,535,774
Components of net periodic pension expense:		
Interest cost	$ 227,128	$ 640,454
Expected return on plan assets	(202,416)	(1,162,520)
Net amortization and deferrals	29,601	125,182
Settlement charge	-	4,762,540
	$ 54,313	$ 4,365,656

The 2023 net pension cost was calculated using the January 1, 2022, census data, asset information as of June 30, 2022, and a measurement date of June 30, 2023.

Assumptions: Pension costs are determined based on actuarial valuations that reflect appropriate assumptions as of the measurement date, ordinarily the beginning of each year. The funded status of the plan is determined using appropriate assumptions as of each year-end. A summary of the major assumptions follows:

	2023	2022
Funded status:		
Discount rate	5.06%	4.54%
Future salary increases	N/A	N/A
Pension cost:		
Discount rate	4.54%	2.55%
Return on assets in plans	4.54%	5.10%
Future salary increases	N/A	N/A

Plan assets: The Agency invests the defined benefit plan assets in a professionally managed portfolio of equity and debt securities. The Agency’s target asset allocation is approximately 40% fixed income and 60% equity securities. Each year this asset allocation strategy is reviewed to determine the percentage of the fund that is allocated to equity and debt securities. The expected rate of return is based on both historical returns as well as the outlook for future returns given the current economic conditions.

Note 13. Pension Plan (Continued)

The fair values of the Agency's pension plan assets at June 30, 2023 and 2022, by asset category are as follows:

	2023	Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3
Assets:				
Equity securities:				
U.S. equities	$ 828,937	$ 828,937	$ -	$ -
Non-U.S. equities	282,366	282,366	-	-
Fixed income securities:				
U.S. fixed income	3,867,897	3,867,897	-	-
	4,979,200	$ 4,979,200	$ -	$ -
Cash	10,206			
	$ 4,989,406			

	2022	Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3
Assets:				
Equity securities:				
U.S. equities	$ 2,107,123	$ 2,107,123	$ -	$ -
Non-U.S. equities	646,958	646,958	-	-
Fixed income securities:				
U.S. fixed income	2,003,758	2,003,758	-	-
	4,757,839	$ 4,757,839	$ -	$ -
Cash	29,893			
	$ 4,787,732			

The asset allocation for the Agency's pension plan by asset category is as follows:

	2023	2022
Equity securities	22 %	58 %
Debt securities	78	42
	100 %	100 %

From time-to-time fluctuations in the market can cause the plan assets to fall outside of the required allocation range. Periodic re-balancing of the portfolio will take place to adjust for any differences.

Contributions: The Agency expects to contribute $0 to the pension plan during the year ending June 30, 2024.

Note 13. Pension Plan (Continued)

Estimated future benefit payments: Estimated future benefit payments are as follows:

Years ending June 30:	
2024	$ 492,166
2025	285,163
2026	327,621
2027	360,199
2028	331,985
2029-2032	1,603,909

Note 14. Leases

The Agency enters into contracts to lease real estate and various equipment. The Agency's most significant leases are for office space with initial lease terms expiring through September 2031. Certain leases include renewal or termination options. Under FASB ASC Topic 842, the lease term at the lease commencement date is determined based on the non-cancellable period for which the Agency has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Agency is reasonably certain to exercise that option, periods covered by an option to terminate the lease if the Agency is reasonably certain not to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The Agency considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to overall operations, costs to negotiate a new lease, and any contractual or economic penalties.

FASB ASC Topic 842 includes a number of reassessment and re-measurement requirements for lessees based on certain triggering events or conditions, including whether a contract is or contains a lease, assessment of lease term and purchase options, measurement of lease payments, assessment of lease classification and assessment of the applicable discount rate. The Agency reviewed the reassessment and re-measurement requirements and did not identify any events or conditions during the fiscal year ended June 30, 2023, that required a reassessment or re-measurement. In addition, there were no impairment indicators identified during the fiscal year ended June 30, 2023 that required an impairment test for the Agency's ROU assets or other long-lived assets in accordance with ASC 360-10.

These real estate leases contain annual escalation clauses, periods of rent abatement and tenant construction allowances. Payments made to, or on behalf of, the lessee represent tenant incentives or allowances that should be considered reductions of rental expense and amortized over the initial term of the lease within the new operating lease, right-of-use asset.

The components of lease expense and supplemental cash flow information related to leases for the fiscal year ended June 30, 2023, are as follows:

Operating lease costs	$ 2,274,219
Variable lease costs	2,715,376
	$ 4,989,595

Rental expense recognized in the fiscal year ended June 30, 2022, under previous guidance, FASB ASC Topic 840, Leases, amounted to $3,825,782, including variable type lease costs.

Note 14. Leases (Continued)

Other lease-related information as of and for the fiscal year ended June 30, 2023, is as follows:

Cash paid for amounts included in the measurement of operating lease liabilities:	
Operating cash flows from operating leases	$ 698,772
Weighted-average remaining lease term on operating leases	8 years
Weighted-average discount rate for operating leases	2.90%

As of June 30, 2023, maturities of the Agency's lease liabilities are as follows:

Years ending June 30:	
2024	$ 1,392,728
2025	1,270,203
2026	1,246,763
2027	1,260,983
2028	1,260,912
Thereafter	3,921,607
Total lease payments	10,353,196
Less present value discount	(1,105,159)
Total lease obligations	$ 9,248,037

As previously reported, as of June 30, 2022, the Agency's future minimum lease commitments, under previous leasing guidance, FASB ASC Topic 840, Leases, were:

Years ending June 30:	
2023	$ 1,674,214
2024	1,444,979
2025	1,331,546
2026	1,313,107
2027	1,324,769
Thereafter	5,447,849
	$ 12,536,464

Note 15. Fiduciary Arrangements

Included in cash and in funds held in custody for others (a liability) at June 30, 2023 and 2022, are $14,927 and $13,992, respectively, of funds held by the Agency on behalf of certain clients to cover their third-party obligations.

Note 16. Supporting Agencies

The Agency received approximately $99,000,0000 and $79,000,000 of its support and revenue from federal and state granting agencies during fiscal years 2023 and 2022, respectively. A significant reduction in this level of support, if it were to occur, could have a significant effect on the Agency's programs and activities. A portion of this support is subject to review and final determination by the granting agencies. The Agency does not anticipate any significant adjustment upon final review and determination.

Note 17. Midway and Jones Centers Project

The Agency's Midway and Jones Centers project is an $11,000,000 project to expand and renovate the Midway Center and the Jones Center, both of which are located in Chicago. As of June 30, 2023, the Agency had capitalized approximately $9,600,000 in costs related to the expansion, renovation and construction of the centers. The expansion and renovations for these projects were substantially complete as of June 30, 2023.

The Agency was awarded approximately $4,500,000 from the Illinois Capital Board for the project during the fiscal year ended June 30, 2022. The Agency has recognized approximately $2,600,000 of the Illinois Capital Board grant as a donor restricted contribution during the year ended June 30, 2023.

On September 30, 2021, the Agency entered into state and federal New Market Tax Credits (NMTC) financings for the expansion and renovation of the Midway and Jones Centers. These two properties were transferred to FSS, consolidated affiliate of the Agency and recipient of the NMTC financing. The NMTC financing completed the financing for the project.

Note 18. Contingencies

From time to time, the Agency is subject to claims that arise in the ordinary course of conducting its activities. In management's opinion, the resolution of these matters would not have a material effect on the financial position of the Agency.

Note 19. Howard Area Community Center (HACC)

On November 1, 2022, HACC amended its bylaws to become a membership nonprofit corporation and made the Agency the sole member. As a result, the Agency now has control and economic interest in HACC. HACC is an Illinois not-for-profit 501(c)(3) tax-exempt entity whose mission is to serve low-income individuals and families in the Rogers Park neighborhood of Chicago and surrounding community to stabilize their lives and to help develop the social skills necessary to become effective community members. HACC's programs include early childhood education, adult employment and education, and other health and emergency case management services.

The Agency recorded the transaction in accordance with the Business Combinations Topic in U.S. GAAP, which requires the acquisition method to be used for this type of business combination.

The Agency recognized on its consolidated statement of activities net assets acquired for the fair value of the transferred net assets in the fiscal year ended June 30, 2023, less any consideration exchanged (an inherent contribution). An intercompany note payable in the amount of $769,519 due from HACC to the Agency existed prior to the acquisition date with a variable rate of interest. This note payable was forgiven by the Agency after the acquisition date and represents consideration exchanged by the Agency for the acquisition of HACC's net assets. There were no identifiable intangible assets acquired in the transaction.

Note 19. Howard Area Community Center (HACC) (Continued)

The following table summarizes the November 1, 2022, fair values of the assets acquired and liabilities assumed:

Cash	$ 2,953,427
Grant receivable	958,278
Property and equipment	2,580,000
Total assets acquired	6,491,705
Accounts payable	2,350,578
Deferred revenue	92,771
Total liabilities acquired	2,443,349
Net assets before consideration exchanged	4,048,356
Less consideration exchanged (intercompany note payable)	(769,519)
Net assets acquired	$ 3,278,837

Note 20. I GROW Chicago

Effective October 1, 2021, I GROW Chicago (I GROW) transferred its board governance to the Agency under a mutual agreement. I GROW is an Illinois not-for-profit 501(c)(3) tax-exempt entity, based in the Englewood community of Chicago, Illinois, whose mission and services include community gardening, food pantry distribution, and workforce development. The transaction was the result of the shared belief that the Agency could serve as a steward of the organization while a larger partnership of other Englewood nonprofit organizations (unrelated to the Agency) was being formed. This larger partnership was established and named “Imagine Englewood If” on July 31, 2022. At this time, the board governance of I GROW was transferred to Imagine Englewood If.

The Agency’s consolidated financial statements for the year ended June 30, 2023 reflect the change in board governance as a divestiture of I GROW, with a reduction to consolidated net assets in an amount equivalent to the I GROW net assets ($2,748,440) as of July 31, 2022. This transfer is recorded within the nonoperating activities section of the consolidated statement of activities for the fiscal year ended June 30, 2023. The Agency retained a property previously held by I GROW in the amount of approximately $120,000 which is included within the Agency’s property and equipment at June 30, 2023.

In the previous fiscal year ended June 30, 2022, the Agency recorded the transaction in accordance with the Business Combinations Topic of the Codification, which requires the acquisition method to be used for this type of business combination. There was no consideration transferred, therefore, the Agency recognized on its consolidated statement of activities net assets acquired for the fair value of the transferred net assets. There were no identifiable intangible assets acquired in the transaction.

Note 20. I GROW Chicago (Continued)

The following table summarizes the October 1, 2021, fair values of the assets acquired and liabilities assumed:

Cash	$ 677,228
Pledge receivable	93,123
Prepaid expenses	15,184
Investments	1,103,003
Property and equipment, net	708,032
Beneficial interest in remainder trust	669,930
Total assets acquired	3,266,500
Accounts payable	54,561
Net assets acquired	$ 3,211,939

I GROW's activities for the period from October 1, 2021 to June 30, 2022, resulted in a decrease in I GROW's net assets of $223,563. The Agency's consolidated statement of activities for the fiscal year ended June 30, 2022, reports $2,988,376 as the I GROW net asset acquired which is net of this decrease.

Because the holding period for I GROW was only temporary the assets, including cash, less liabilities, are reported on the consolidated statement of financial position at June 30, 2022 as a single, net balance (other assets). Divestiture and acquisition of I GROW net assets including cash are similarly reported as a single line item on the consolidated statements of cash flows for years ended June 30, 2023 and 2022.

Note 21. Availability and Liquidity

The Agency's financial assets (cash and receivables) typically are sufficient to cover four months of general expenditures. In addition, the Agency has a revolving line of credit with a local bank in the amount of $10,000,000 that is available when expenditures are uneven or receivables are slow in collection.

The Agency had investments of $44,259,013 and $42,253,290, as of June 30, 2023 and 2022, respectively. Approximately 60% of these amounts are invested in mutual funds with one day liquidity. However, Board policy restricts the use of these assets to the long-term needs of the Agency. Therefore, investments are not included in the financial assets available for general expenditures.

Financial assets as of June 30, 2023 and 2022, available to meet general expenditures over their respective subsequent 12-month periods consist of:

	2023	2022
Cash	$ 8,599,942	$ 5,725,046
Receivables:		
Government grants	23,849,221	17,216,035
Fundraising pledges (due in less than 1 year)	128,583	95
Other	1,351,677	798,712
	25,329,481	18,014,842
Expected endowment spending appropriation	1,668,000	1,668,000
Total	$ 35,597,423	$ 25,407,888