Allies for Community Business

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2023

Selden Fox

Accounting for your future

Allies for Community Business
Audit Report
For the Year Ended December 31, 2023

Table of Contents

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Accounting for your future
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Allies for Community Business
Chicago, Illinois

Opinion

We have audited the accompanying financial statements of **Allies for Community Business**, which comprise the statement of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Allies for Community Business as of December 31, 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. 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 Allies for Community Business 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, Allies for Community Business has adopted Financial Accounting Standards Board Accounting Standard Codification 326, *Credit Losses*. Our opinion is not modified with respect to that 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 Allies for Community Business's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 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 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 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 Allies for Community Business'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 Allies for Community Business'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.

Selden Fox, Ltd.

May 17, 2024

Allies for Community Business
Statement of Financial Position
December 31,

	2023	2022
Assets		
Cash and restricted cash:		
Unrestricted	**$ 5,419,811**	$ 3,680,472
Restricted cash:		
BACP Loan loss reserve	**-**	5,487,309
Other	**5,121,852**	5,184,272
Designated for loan loss reserve	**74,989**	74,989
Total cash and restricted cash	**10,616,652**	14,427,042
Contributions receivable	**484,156**	220,872
Government receivables	**106,645**	186,704
Loans receivable, net of allowance for credit losses of $5,024,587 and $2,199,856 at December 31, 2023 and 2022, respectively	**15,824,898**	23,366,049
Prepaid expenses and other assets	**218,796**	230,748
Investment in:		
The Hatchery Title Holding Corporation NFP	**242,456**	322,378
The Hatchery Master Tenant LLC	**4,088,500**	4,257,081
Property, equipment, and software, net	**358,788**	460,355
Operating lease right-of-use asset	**3,615,812**	3,808,577
Total assets	**$ 35,556,703**	$ 47,279,806
Liabilities and Net Assets		
Liabilities:		
Accounts payable	**$ 141,816**	$ 313,557
Accrued expenses	**223,043**	401,465
Deferred revenue	**60,000**	10,000
Funds held for others	**471,204**	228,216
Notes payable, less discount of $1,264,767 and $1,602,357 at December 31, 2023 and 2022, respectively	**16,576,071**	22,594,847
Operating lease liability	**3,751,052**	3,878,189
Total liabilities	**21,223,186**	27,426,274
Net assets:		
Without donor restrictions	**6,772,125**	6,246,543
With donor restrictions	**7,561,392**	13,606,989
Total net assets	**14,333,517**	19,853,532
Total liabilities and net assets	**$ 35,556,703**	$ 47,279,806

See accompanying notes.

Allies for Community Business
Statement of Activities
For the Year Ended December 31,

	2023			2022		
	Without	With		Without	With	
	Donor Restrictions		Total	Donor Restrictions		Total
Public support and revenue:						
Public support:						
Contributions - corporations, foundations, and individuals	**$ 1,173,865**	**$ 3,745,069**	**$ 4,918,934**	$ 1,443,463	$ 3,344,646	$ 4,788,109
Imputed interest contribution	**-**	**258,995**	**258,995**	-	-	-
Total public support	**1,173,865**	**4,004,064**	**5,177,929**	1,443,463	3,344,646	4,788,109
Government agencies:						
City of Chicago	**97,964**	**-**	**97,964**	96,106	-	96,106
U.S. Department of Commerce	**-**	**-**	**-**	-	190,717	190,717
State of Illinois	**129,620**	**-**	**129,620**	633,240	-	633,240
Department of the Treasury	**-**	**1,735,187**	**1,735,187**	1,526,966	-	1,526,966
Total government agencies support	**227,584**	**1,735,187**	**1,962,771**	2,256,312	190,717	2,447,029
Other revenues:						
Loan interest	**1,115,523**	**154,596**	**1,270,119**	1,019,980	100,339	1,120,319
Administrative services and loan fees	**648,175**	**15,000**	**663,175**	551,837	-	551,837
Investment income	**48,776**	**30,684**	**79,460**	50,168	27,453	77,621
Participation income	**4,740**	**-**	**4,740**	8,625	-	8,625
Equity in loss of:						
The Hatchery Title Holding Corporation, NFP	**(79,922)**	**-**	**(79,922)**	(85,662)	-	(85,662)
The Hatchery Master Tenant LLC	**(168,581)**	**-**	**(168,581)**	(31,028)	-	(31,028)
Net assets released from restrictions	**11,985,128**	**(11,985,128)**	**-**	4,970,806	(4,970,806)	-
Total other revenues	**13,553,839**	**(11,784,848)**	**1,768,991**	6,484,726	(4,843,014)	1,641,712
Total public support and revenue	**14,955,288**	**(6,045,597)**	**8,909,691**	10,184,501	(1,307,651)	8,876,850
Expenses:						
Program services	**7,595,298**	**-**	**7,595,298**	6,044,505	-	6,044,505
Management & general/administrative	**696,842**	**-**	**696,842**	1,066,936	-	1,066,936
Fund-raising	**575,475**	**-**	**575,475**	744,536	-	744,536
Total expenses	**8,867,615**	**-**	**8,867,615**	7,855,977	-	7,855,977
Change in net assets	**6,087,673**	**(6,045,597)**	**42,076**	2,328,524	(1,307,651)	1,020,873
Net assets, beginning of year	**6,246,543**	**13,606,989**	**19,853,532**	3,918,019	14,914,640	18,832,659
Adoption of new accounting pronouncement (Note 1)	**(5,562,091)**	**-**	**(5,562,091)**	-	-	-
Net assets, beginning of year as adjusted	**684,452**	**13,606,989**	**14,291,441**	-	-	-
Net assets, end of year	**$ 6,772,125**	**$ 7,561,392**	**$ 14,333,517**	$ 6,246,543	$ 13,606,989	$ 19,853,532

See accompanying notes.

Allies for Community Business
Statement of Functional Expenses
For the Year Ended December 31,

	2023				2022			
	Program	Administrative	Fund-raising	**Total**	Program	Administrative	Fund-raising	Total
Functional expenses:								
Salaries and wages	$ 2,452,541	$ 375,293	$ 318,802	**$ 3,146,636**	$ 2,165,412	$ 337,273	$ 430,104	**$ 2,932,789**
Payroll taxes and fringe benefits	473,143	77,601	61,503	**612,247**	386,058	65,041	76,681	**527,780**
Credit and collection	457,021	41	32	**457,094**	229,882	-	-	**229,882**
Interest	360,505	-	-	**360,505**	414,794	-	-	**414,794**
Amortization of imputed interest for notes payable issued below fair value	596,585	-	-	**596,585**	477,592	-	-	**477,592**
Amortization of premiums on loans purchased	-	-	-	**-**	148	-	-	**148**
Provision for loan losses	828,476	-	-	**828,476**	880,026	-	-	**880,026**
Occupancy	501,703	85,237	65,215	**652,155**	296,012	248,146	54,941	**599,099**
Professional fees and consultants	363,383	47,379	6,204	**416,966**	583,445	261,186	83,613	**928,244**
Telephone	31,908	4,868	4,147	**40,923**	38,934	901	544	**40,379**
Insurance	23,978	4,074	3,117	**31,169**	13,643	14,388	2,710	**30,741**
Equipment rental and maintenance	14,086	2,393	1,831	**18,310**	17,656	52	58	**17,766**
Supplies	9,733	1,640	1,255	**12,628**	10,749	1,116	1,253	**13,118**
Marketing	19,002	1,039	2,495	**22,536**	22,650	1,309	1,470	**25,429**
Event expense	14,448	494	48,781	**63,723**	3,436	84	20,976	**24,496**
Travel	4,022	577	441	**5,040**	2,525	442	433	**3,400**
Training	27,794	4,710	4,213	**36,717**	22,933	2,768	2,210	**27,911**
Information technology	276,288	42,288	32,355	**350,931**	309,561	54,454	47,532	**411,547**
Dues and subscriptions	8,693	1,477	1,130	**11,300**	4,269	755	848	**5,872**
Depreciation and amortization	171,764	29,182	22,327	**223,273**	102,352	18,105	20,330	**140,787**
Other	7,685	18,549	1,627	**27,861**	2,325	60,916	833	**64,074**
Grants and contributions made	952,540	-	-	**952,540**	60,103	-	-	**60,103**
Total expenses	$ 7,595,298	$ 696,842	$ 575,475	**$ 8,867,615**	$ 6,044,505	$ 1,066,936	$ 744,536	**$ 7,855,977**

See accompanying notes.

Allies for Community Business
Statement of Cash Flows
For the Year Ended December 31,

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 42,076	$ 1,020,873
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization on property and equipment	223,273	140,787
Amortization of premiums on purchased loans receivable	-	148
Provision for loan losses	828,476	880,026
Amortization of operating lease right-of-use asset	192,765	190,286
Contribution revenue on below market interest notes payable	(258,995)	-
Equity in loss of:		
The Hatchery Title Holding Corporation NFP	79,922	85,662
The Hatchery Master Tenant LLC	168,581	31,028
Interest expense on below market interest loans	596,585	477,592
Changes in:		
Contributions receivable	(263,284)	(143,014)
Government receivables	80,059	433,310
Prepaid expenses and other assets	11,952	(96,648)
Accounts payable and accrued expenses	(350,163)	7,446
Deferred revenue	50,000	(108,835)
Funds held for others	242,988	(10,510,502)
Operating lease liability	(127,137)	(120,674)
Net cash from operating activities	1,517,098	(7,712,515)
Cash flows from investing activities:		
Net originations of loans	961,085	(2,186,004)
Proceeds from sales of loans	189,499	127,046
Purchases of property, equipment, and software	(121,706)	(233,947)
Net cash from investing activities	1,028,878	(2,292,905)
Cash flows from financing activities:		
Principal repayment of notes payable	(10,284,366)	(2,760,973)
Proceeds from notes payable	3,928,000	550,000
Net cash from financing activities	(6,356,366)	(2,210,973)
Net change in cash and restricted cash	(3,810,390)	(12,216,393)
Cash and restricted cash, beginning of the year	14,427,042	26,643,435
Cash and restricted cash, end of the year	$ 10,616,652	$ 14,427,042
Supplemental cash flow information:		
Interest paid	$ 359,705	$ 413,994
Cash paid for amounts included in the measurement of operating lease liabilities	$ 203,201	$ 199,217

See accompanying notes.

1. **Nature of Operations and Summary of Significant Accounting Policies**

Organization – Allies for Community Business (the "Organization") helps neighborhood entrepreneurs grow by providing the capital, coaching and connections small business owners need to create wealth and jobs in communities most in need throughout Illinois and Indiana. The majority of businesses receiving capital and coaching operate in low to moderate income communities.

Income Tax Status – The Organization was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). Contributions to Allies for Community Business qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and Allies for Community Business has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of the Organization and the nature in which it operates is described in the first paragraph of Note 1. Management believes the Organization continues to operate in compliance with its tax-exempt purpose. The Organization had no unrelated business income that management believes is subject to tax in 2023 or 2022.

The Organization's annual informational returns filed with the federal and state governments are generally subject to examination by the Internal Revenue Service (IRS) for three years after filing. Thus, returns for 2020, 2021 and 2022 remain open to IRS examination.

Basis of Accounting – The accounts and financial statements are maintained on the accrual basis of accounting and, accordingly, reflect all significant receivables and payables.

Basis of Presentation – The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, as required by U.S. Generally Accepted Accounting Principles ("GAAP"). All contributions, including promises to give, are recognized as unrestricted revenues in the period received, unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes, are reported with donor restrictions, and increases in that net asset class. However, if a restriction is fulfilled in the same reporting period in which the contribution is received, the Organization generally reports the support without donor restrictions. The Organization has no Board designated net assets at December 31, 2023 or 2022.

Gifts of long-lived assets are reported without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, would be reported with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

1. **Nature of Operations and Summary of Significant Accounting Policies** (cont'd)

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 also reported amounts of revenue and expenses during the reporting period. Significant estimates used in the preparation of these financial statements include the allowance for credit losses, discontinuance of accrual of interest on loans when collection is doubtful, the rate used to estimate the discount for below market rate debt, and allocations of general, administrative and other expenses to individual program activities. Actual results could differ from those estimates.

Cash and Restricted Cash – Cash consists of bank deposits in federally insured accounts. At December 31, 2023, cash accounts exceeded federally insured limits by approximately $10,248,000.

Contributions Receivable and Government Receivables – Contributions receivable and government receivables consist of grants and other contributions that are considered to be promises to give and are recorded in the year the promise is made and conditions, if any, are met. If considered necessary, an allowance for uncollectible contributions receivable would be determined based on specific pledges and experience. No allowance was deemed necessary as of December 31, 2023 and 2022. Substantially all contributions and government receivables are expected to be received within one year from the date of the statement of financial position and, accordingly, the amounts of the receivables at December 31, 2023 and 2022, have not been discounted.

Loans Receivable and Allowance for Credit Losses – Loans receivable are stated at their unpaid principal balance, less an allowance for credit losses. Interest on loans receivable is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding. A substantial portion of the loan portfolio consists of loans made to entrepreneurs in the Chicagoland area. The ability of borrowers to repay these loans may be dependent upon the general economic conditions in their local community as well as in the general Chicagoland area.

Loan origination fees approximate direct loan origination costs and are generally recognized as income upon receipt. Such fees are included in other revenues on the statement of activities.

The Organization discontinues the recording of interest when a loan becomes greater than ninety days past due. Past due or delinquent status of loans is determined by the paid-through date according to the prescribed loan terms. In all cases, loans may be placed on nonaccrual status at an earlier date if collection of principal or interest is considered doubtful.

Prior to January 1, 2023, the Organization's allowance for credit losses was recorded at an amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. The allowance for credit losses was evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation was inherently subjective as it requires estimates that are susceptible to significant revision as information becomes available.

1. **<u>Nature of Operations and Summary of Significant Accounting Policies</u>** (cont'd)

Loans Receivable and Allowance for Credit Losses (cont'd) – General allowances were established for loans that could be grouped into pools based on similar characteristics. In this process, general allowance factors were based on an analysis of historical charge-off experience and expected losses given default derived from the Organization's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors used to determine the allowances were subjective and required a high degree of management judgment. Those factors included the credit quality statistics, recent economic uncertainty, and losses incurred from recent events as of the measurement date.

The Organization adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended on January 1, 2023. With the adoption of ASU 2016-13, an allowance for credit losses is established upon origination for all loans through a provision for credit losses charged to expense. The expected credit loss model is based on management's current best estimate of lifetime expected credit losses ("CECL") inherent in the Organization's loan portfolio. This accounting standard replaced the previous probable incurred loss model which incorporated known information as of the statement of financial condition date. CECL is estimated using quantitative methods that consider a variety of factors such as historical loss experience, the current credit quality of the portfolio, and average remaining lives, as well as qualitative factors, including supportable forecasts of economic outlook.

The Organization adopted ASU 2016-13 utilizing the modified retrospective transition method. As of January 1, 2023, adoption of ASU 2016-13 increased the allowance for credit losses by $5,562,091 and decreased net assets by the same amount.

Beginning on January 1, 2023, the Organization uses a disciplined process and methodology to estimate the allowance for credit losses. The Organization establishes allowances for pooled loan segments sharing similar risk characteristics such as, loan type, collateral type, credit or risk ratings, etc. Management estimates the allowance needed for each portfolio segment, including loans analyzed individually and loans with similar risk factors analyzed on a pooled basis. The Organization's portfolio segments include core loans of up to $2,500 with original maturities up to two years ("Core 1"), core loans between $2,500 and $25,000 with original maturities of two to four years ("Core 2"), core loans between $25,000 and $100,000 with original maturities of three years ("Core 3), Chicago Small Business Resiliency Fund ("CSBRF") Loans, Illinois Small Business Emergency Loans ("ISBEL"), and other loans.

For each pooled segment, losses are modeled using historical experience and quantitative and other mathematical techniques, such as the probability of default, over the loss emergence period. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available regarding changes in economic conditions, borrower behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release amounts from the allowance for credit losses.

1. **<u>Nature of Operations and Summary of Significant Accounting Policies</u>** (cont'd)

Loans Receivable and Allowance for Credit Losses (cont'd) – The Organization uses an internally developed vintage analysis model in determining the allowance for credit losses. Management must use judgment in establishing input metrics for the modeling processes. The models and assumptions are reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices and end-user controls are appropriate and properly documented. Management monitors differences between estimated and actual incurred credit losses. This monitoring process includes periodic assessment by senior management of portfolio segments and the models used to estimate incurred losses in those segments.

Additions/subtractions to the allowance for credit losses are made by an expense/credit to the provision for credit losses. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. Loan losses are charged against the allowance when a loan is delinquent more than 180 days, or management believes there is confirmation that a loan balance is not collectible. Subsequent recoveries are credited to the allowance.

All interest accrued but not collected for loans that are placed on nonaccrual or charge-off status is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to current accrual status. Loans are returned to accrual status when all principal and interest payment amounts contractually due are brought current and future payments are reasonably assured.

The Organization adopted ASU 2022-02 *Financing Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, on a prospective basis. ASU 2022-02 eliminates the troubled debt restructuring recognition and measurement guidance and requires entities to apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. Expected credit losses are recorded in the allowance for credit losses. The adoption of ASU 2022-2 did not have a material impact on the Organization's financial statements.

In situations where, for economic or legal reasons related to a borrowers' financial difficulties, the Organization grants a concession for other than an insignificant period of time to the borrower that the Organization would not otherwise consider, the related loan is classified as a loan modification. These modified terms may include rate reductions, principal or accrued interest forgiveness, payment forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. At December 31, 2023, there were no significant modifications.

In 2020, as a result of the spread of the COVID-19 coronavirus pandemic, the Organization received grants to participate in the City of Chicago CSBRF program and the State of Illinois ISBEL program. Both programs provided low-interest loans to support small businesses that are experiencing a temporary loss of revenue due to the COVID-19 outbreak. The Organization's loan portfolio experienced substantial growth in 2020 as a result of participating in these programs and economic uncertainties exist which could negatively impact the Organization's loan portfolio and allowance for credit losses. The extent of potential negative financial impact is unknown at this time. Management continues to monitor these loan programs and the actual amount collected on these loans may materially differ from management's estimates.

1. **<u>Nature of Operations and Summary of Significant Accounting Policies</u>** (cont'd)

Investment in The Hatchery Entities/Hatchery Deposits – Allies for Community Business has a 50% membership interest in The Hatchery Title Holding Corporation NFP and a 50% membership interest in the Hatchery Master Tenant LLC. These investments are accounted for using the equity method of accounting. Profits and losses of the Hatchery entities are allocated in accordance with the Members' respective membership interests.

Property, Equipment, and Software – Property, equipment, and software are stated at cost, if purchased, or fair value, if received by donation. Depreciation and amortization are provided on the straight-line method, over the estimated useful lives of the assets, generally 3 to 5 years. Expenditures for property and equipment in excess of $500 are generally capitalized.

Lease Accounting – Management evaluates contracts at their inception to determine if an arrangement contains a lease based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. Leases are classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of activities.

As a lessee, the Organization records a right-of-use ("ROU") asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. For leases with a term of less than 12 months (short-term leases), the Organization does not record a ROU asset or a lease liability and the payments will be recognized in results of operations over the lease term. ROU assets and lease liabilities are recognized at commencement date based on the present value of the future lease payments over the lease term. The Organization includes lease extensions in the lease term when it is reasonably certain that it will exercise the extension. The discount rates used to determine the ROU asset and liability are the lease's implied rate, if readily determinable. If the implied rate is not readily determinable, the discount rate used is the Organization's incremental borrowing rate, except that the Organization has elected the practical expedient to use a risk-free discount rate based on the term of the lease for leases of office space. For lease agreements with both lease and non-lease components, management has elected the practical expedient to account for them as a single component. The ROU asset also includes initial direct costs and prepaid lease payments made less lease incentives, if applicable. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Funds Held for Others – Funds held for others consist of cash collected from third parties where Allies for Community Business acts as an agent on behalf of the third parties under the terms of various grant agreements. Under these agreements, grantors have either specified the beneficiary for the funds held or select beneficiaries for the funds held from a prequalified list provided by Allies for Community Business. In either case, Allies for Community Business does not have explicit, unilateral power to redirect the use of transferred cash to a beneficiary of its choice, which is referred to as variance power under ASC 958-605. Accordingly, Allies for Community Business does not record contribution revenue for these amounts, but instead records amounts received as funds held for others until Allies for Community Business disburses funds to beneficiaries.

1. **Nature of Operations and Summary of Significant Accounting Policies** (cont'd)

Notes Payable and Debt Discount – The Organization has entered into debt agreements with interest terms that are lower than those that an independent borrower and an independent lender would have negotiated in a similar transaction. The Organization considers the spread between the stated rate of interest for the Organization's debt and the rate of interest that would be available to an independent borrower to represent a contribution to the Organization.

For term notes that are due in more than one year, the Organization records the loan at its inception at face value less a discount, with the discount being recognized with donor restrictions as imputed interest contribution. Over the term of the note, the discount is amortized using the effective interest method and recorded as imputed interest for loans below fair value on the statement of functional expenses.

For demand notes or term notes with maturities of one year or less, the Organization records a contribution each year for the difference between amount of interest that is estimated that would have been paid by an independent borrower for a similar transaction and the actual amount of interest incurred at face value.

The rate used to discount the debt is management's estimate of the interest rate an independent borrower and an independent lender would have negotiated in a similar transaction at origination of the borrowing and ranges from 3.54% to 7.35% and 3.54% to 7.00% at December 31, 2023 and 2022, respectively.

Certain Vulnerabilities and Concentrations – At December 31, 2023, 19% of total public support was from a governmental agency and 12% of total public support was from a charitable organization. There were no significant concentrations from contributions or government receivables at December 31, 2022. Any negative change in the economy or political environment could have an impact on contributions, fund-raising efforts, and contracts as well as government grants.

In-Kind Support – In addition to receiving cash contributions, the Organization may receive in-kind contributions from donors. In accordance with generally accepted accounting principles, the Organization records the estimated fair value of certain in-kind donations as an expense or an asset in its financial statements, and corresponding contribution revenue. The Organization did not receive in-kind contributions in 2023 or 2022.

Grants and Contributions Made – The Organization receives funding from various sources that is or has been included in public support in the past to fund grants and contributions to other individuals or organizations that align with the Organization's mission.

Grants and contributions made reflected on the statement of functional expenses consisted of amounts for the following purposes for the year ended December 31:

	2023	2022
NEL Cohorts	**$ 892,830**	$ 60,000
Other grants and contributions made	**59,710**	103
	$ 952,540	$ 60,103

1. **<u>Nature of Operations and Summary of Significant Accounting Policies</u>** (cont'd)

Grants and Contributions Made (cont'd) – The Organization approves grants to be paid to other organizations and individuals for other purposes that comply with the Organization's tax-exempt purpose, which includes supporting entrepreneurs in the Neighborhood Entrepreneurship Lab ("NEL") cohorts, and certain other projects.

Advertising – The Organization expenses the cost of advertising as incurred. Advertising and marketing expenses were $22,536 in 2023 ($25,429 in 2022).

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The expenses that are allocated and consistently applied include salaries and wages, payroll taxes and fringe benefits, occupancy, donated services, equipment rental and maintenance, and depreciation and amortization, which are allocated based on employee hours for specific individuals. The remaining expenses are direct costs of program and other activities.

Other Revenue Recognition – A portion of other revenues is from contracts with a customer and is recognized as earned when services are performed without future performance obligations. Administrative services included in other revenues on the statement of activities was $527,174 and $224,088 in 2023 and 2022, respectively. Such fees are recognized at the point in time services are performed under the agreements for which the fees relate, which is when the Organization's performance obligation is satisfied.

2. **Restricted Cash -** Restricted cash at December 31, is summarized as follows:

Funding Source	Funding Purpose		2023	2022
BACP Loan Loss Reserve - BACP	CSBRF loans (Note 6)		**$ -**	$ 5,487,309
Other Restricted Cash:				
Lending, Loan Loss Reserves, and Techical Assistance:				
The Chicago Community Trust	Loan loss reserve	(1)	**1,000,000**	-
Support from Various Sources for Neighborhood Entrpreneur Lab	Support of NEL Cohorts	(2)	**944,428**	1,070,480
The Chicago Community Trust/JPMorgan Chase/Fifth Third Bank	Capital and Coaching for Chicagoland Entrepreneurs	(3)	**655,760**	425,833
Economic Development Administration	Lending: Cook County, Illinois and Lake County, Indiana	(4)	**584,667**	958,073
Entrepreneurs of Color: JPMorgan Chase Bank	Technical Assistance and Lending: Women and People of Color	(5)	**461,683**	904,782
Private Foundation Funding	Lake County Grant and Loan Capital	(6)	**402,248**	120,000
Tory Burch	Lending: Women entrepreneurs	(7)	**104,658**	149,598
City of South Bend	Loan Program	(8)	**135,750**	148,250
Bank of America Foundation	SBA loan loss reserve	(9)	**60,000**	60,000
Internal Funds Restricted by Contract	SBA CA SBLCs loan loss reserve	(10)	**8,910**	11,875
Wells Fargo	Loan Program	(11)	**-**	587,407
The Chicago Community Trust	Business Coaches	(12)	**-**	65,429
Other loan programs	Loan Program		**48,659**	-
Funds Held for Others:				
Private Foundation Funding	Funds held for others	(6)	**270,000**	145,000
West Side United Grant Pool	Funds held for others	(13)	**140,000**	13,000
Other	Funds held for others		**61,202**	70,216
Other:				
World Business Chicago	ChiBizHub Portal and Programming	(14)	**91,193**	
The Chicago Community Trust	Hatchery Phase II	(15)	**27,000**	27,000
Google Opportunity Finance Network	Technology Grant	(16)	**-**	273,020
Opportunity Fund	Brewing the American Dream	(17)	**-**	75,000
Other			**125,694**	79,309
	Total Other Restricted Cash		**5,121,852**	5,184,272
			$ 5,121,852	$10,671,581

(1) This amount represents cash received from a grant whereby the Organization will offer revenue-based financing to a diverse set of Cook County entrepreneurs with high growth potential. This amount will fund loan loss reserves for this product.
(2) The Organization has received significant funding from multiple sources over multiple years to support its Neighborhood Entrepreneurship Lab (NEL) cohorts. This amount represents the remaining cash from those grants. The cash is restricted to provide grants to businesses in the cohorts of the NEL program and support services and events for participants.
(3) This amount represents cash on hand that is restricted by the grantor to provide capital and coaching for local entrepreneurs.

2. **Restricted Cash** (cont'd)

(4) This represents the cash portion of the three revolving loan funds that the Organization administers that were funded by the Economic Development Administration of the U.S. Department of Commerce.
(5) The Organization has received funding from JPMorgan Chase Bank over multiple years to support entrepreneurs of color. These funds are to be used towards lending to people of color on the west and south sides of the City of Chicago, including businesses owned by Black, Latinx, women and low income entrepreneurs, as well as technical assistance for the program. This restricted cash balance represents the portion of the funds received that had not been disbursed to beneficiaries at the date of the statement of financial position.
(6) This amount represents unspent amounts received from a private foundation to provide grants to people of color in Lake County, Illinois distributed by a selection committee comprised of members of Allies for Community Business and another organization and for loan capital and general costs for the Organization's work in Lake County, Illinois.
(7) This amount represents cash available to fund a portion of qualifying loans to female entrepreneurs based on a grant agreement with the funding source.
(8) In 2020, the Organization received $300,000 from the City of South Bend to support small businesses affected by COVID-19 in which the Organization was acting in the capacity of an agent. This amount represents the remaining cash from these funds.
(9) The Small Business Administration ("SBA") notes payable agreements require cash to be maintained in a separate, restrictive account to cover 15% of outstanding notes receivable as a loan loss reserve. This restricted cash is intended by the funding source to assist in funding that account.
(10) As required by the SBA's Small Business Lending Companies (CA SBLCs) program, this is an amount in a separate cash account established as a reserve for potential loan losses on loans receivable as required by the SBA's CA SBLCs program.
(11) In 2021, the Organization received $2,000,000 from the Wells Fargo Foundation to "buy down" interest rates on loans funded from other sources to reduce these loans' interest rates for the end borrower and for loan capital. This amount represents the remaining cash from these funds, which was fully deployed in 2023.
(12) This amount is cash on hand that is restricted by the grantor to support the hiring and reassignment of three business coaches.
(13) The Organization received funds from multiple sources where the Organization acted in a fiscal agent capacity for the West Side United Grant Program. This amount represents the remaining cash from these funds.
(14) The Organization received funds from World Business Chicago to be used to fund the direct operating costs of the ChiBizHub portal and programming. This amount represents the remaining cash from these funds.
(15) In 2021, the Organization received $100,000 in support of exploring a future business incubator. This amount represents the remaining cash from these funds.
(16) The Organization received funding from the Google Opportunity Finance Network to fund a project to provide critically needed grant support to community development financial institutions working to support access to capital for Black-owned and controlled small businesses, including non-profits, in underserved communities throughout the United States, as well as to contribute to the long-term sustainability and growth for small business CDFIs by improving their technology capabilities. This amount represented the remaining cash from these funds.

2. **Restricted Cash** (cont'd)

(17) In 2021 and 2022, the Organization received funding to support food and beverage lending. This amount represents the remaining cash from these funds.

3. **Cash Designated for Loan Loss Reserve**

The Organization has designated cash as a reserve of $74,989 at December 31, 2023 and 2022 for potential loan losses on notes receivable associated with the SBA's Notes Payable. The cash in the reserve that is in addition to the required 15% noted as restricted cash for the SBA is not restricted.

4. **Investment in The Hatchery Entities**

Allies for Community Business and Industrial Council of Nearwest Chicago ("ICNC") each have 50% membership interests in The Hatchery Title Holding Corporation NFP and The Hatchery Master Tenant LLC. Allies for Community Business received $4,000 per month in 2023 ($2,833 per month in 2022) for accounting and compliance services for the related entities.

The Hatchery Title Holding Company NFP ("THTHC") is an Illinois nonprofit public benefit corporation classified by the Internal Revenue Service as tax exempt under 501(c)(25) of the Internal Revenue Code. THTHC's exempt purpose is to a.) acquire and hold title to the real property at 135 North Kedzie, Chicago, Illinois (Property), b.) borrow low-interest funds to improve the Property, c.) lease the Property to The Hatchery Master Tenant LLC ("Master Tenant") and the Master Tenant will in turn sublease the Property d.) to collect income from the Master Tenant for the Property, e.) pay certain expenses for the Property including debt service and appropriate reserves, and f.) remit the entire amount of such income in annual distributions, less such expenses to its members, which must be 501(c)(3) organizations.

The Master Tenant, an Illinois limited liability company, was formed to lease the Property and undertake its obligations under the project financing to operate the Hatchery Project. The Hatchery Project is a 67,000 square foot facility that supports the incubation of food companies in Chicago, Illinois, and provides office and programming space for Allies for Community Business and ICNC.

The Project financing closed on January 18, 2018. At closing, the Master Tenant entered into a six-year sublease with Allies for Community Business for office space with extension options (See Note 9). ICNC entered into a six-year sublease with the Master Tenant for the remainder of the space.

At closing, the Master Tenant signed promissory notes with four lenders totaling $18,922,228, which are guaranteed by Allies for Community Business and ICNC (formerly known as KIDC) pursuant to the guaranty agreement dated January 18, 2018, and secured by a leasehold mortgage and assignment of rents on the Property. The aggregate balances of the promissory notes totaled $11,285,481 and $11,522,544 at December 31, 2023 and 2022, respectively.

4. **Investment in The Hatchery Entities** (cont'd)

At closing, the Master Tenant made a $20,546,500 leveraged loan to The Hatchery Investment Fund LLC, an unrelated third party, which in turn made qualified equity investments to five unrelated Community Development Entities (CDEs). The CDEs made ten qualified low-income community investment loans totaling $29,560,000 to THTHC that are secured by a mortgage and assignment of rents of the Property. The aggregate principal balances of the CDE loans as of December 31, 2023 and 2022, was $29,560,000. The rights of THTHC and the Master Tenant are subordinate to the mortgages securing the debt on both entities.

Environmental Indemnity Agreement – Pursuant to the environmental indemnity agreement dated January 18, 2018 (EI Agreement), between Allies for Community Business, ICNC (formerly known as KIDC) (together, the Guarantors), the Lender, and the Master Tenant (collectively, the Indemnitors) shall indemnify and hold the Indemnified Parties, as defined in the EI Agreement, harmless from, for and against any and all environmental claims, liabilities, damages losses, fines, penalties judgements, awards, settlements, costs and expenses that directly or indirectly arise out of or relate in any way to Section 5(a)-(1) of the EI Agreement.

QALICB Indemnification Agreement – Pursuant to the QALICB indemnification agreement dated January 18, 2018 (QALICB Agreement), between THTHC, Allies for Community Business, ICNC (formerly known as KIDC), Master Tenant and Industrial Council of Nearwest Chicago, an Illinois not-for-profit corporation (collectively, the Indemnitors), for the benefit of PNC New Markets Investment Partners, LLC (PNC NMIP) the indemnitors will be obligated to pay the Credit Reduction Amount, as defined in the QALICB Agreement to PNC NMIP on or before the payment date as defined in the QALICB Agreement. The Indemnitors do not have any right of subrogation as a result of any payment or any other payment made by the Indemnitors under the Loan Documents as defined in the QALICB Agreement, and the Indemnitors have waived and released any claim based on any right or subrogation, any claim for unjust enrichment or any other theory that would entitle any indemnitor to a claim against another Indemnitor based on any payment made hereunder or any other payment made under the Loan Documents.

Community Benefits Agreement – Pursuant to the Community Benefits Agreement dated January 18, 2018 (CB Agreement), between THTHC, Allies for Community Business, ICNC, Master Tenant and THC (collectively, the NMTC Beneficiary), and the Lenders, the NMTC Beneficiary will use commercially reasonable efforts to achieve the Community Impacts, as set forth in Section 2 of the CB Agreement, which are based upon data collected and analysis performed by the NMTC Beneficiary and the CDE Lenders.

5. **Property, Equipment, and Software**

Property, equipment, and software by major classification at December 31, is as follows:

	2023	2022
Furniture and equipment	**$ 544,773**	$ 544,773
Leasehold improvements	**196,141**	196,141
Software	**643,989**	522,283
	1,384,903	1,263,197
Less: accumulated depreciation and amortization	**(1,026,115)**	(802,842)
	$ 358,788	$ 460,355

6. **Loans Receivable**

Loans receivable by portfolio segment at December 31, is as follows:

	2023	2022
Core 1	**$ 763,019**	$ 581,716
Core 2	**11,931,500**	12,323,127
Core 3	**824,403**	111,411
CSBRF	**6,443,537**	11,024,804
ISBEL	**795,627**	1,384,289
Other	**91,399**	140,558
	20,849,485	25,565,905
Less: allowance for credit losses	**(5,024,587)**	(2,199,856)
	$ 15,824,898	$ 23,366,049

The weighted average interest rate of the loan portfolio at December 31, 2023, was 6.34% (4.92% at December 31, 2022). The increase in the weighted average interest rate in 2023 from 2022 is attributable to the continuing runoff of low-interest rate loans issued under several government loan programs that Allies for Community Business participated in and originated loans through during the COVID-19 pandemic in 2020 and 2021.

6. **Loans Receivable** (cont'd)

The allowance for credit losses ("ACL") activity is as follows:

	Core $2.5k	Core $2.5k-$25k	Core $25k - $100k	ISBEL	CSBRF	Other	Total
Allowance for Credit Losses:							
Balance, January 1, 2022	183,343	438,310	62,930	284,881	2,580,378	4,477	3,554,319
Provision for loan losses	123,153	2,096,238	8,951	(471,299)	(880,421)	3,404	880,026
Loans charged-off	(179,466)	(1,063,186)	(37,645)	(13,106)	(1,217,367)	(4,867)	(2,515,637)
Recoveries of loans previously charged-off	2,869	70,100	-	199,524	8,655	-	281,148
Balance December 31, 2022	129,899	1,541,462	34,236	-	491,245	3,014	2,199,856
Impact of adoption of ASU 2016-13	142,474	3,551,114	(25,700)	3,461	1,885,835	4,907	5,562,091
Provision for loan losses	272,533	792,279	124,569	14,791	(329,179)	(46,517)	828,476
Loans charged-off	(246,964)	(2,564,583)	(106,122)	(147,570)	(796,989)	15,427	(3,846,801)
Recoveries of loans previously charged-off	7,930	34,236	65,093	129,318	18,205	26,183	280,965
Balance December 31, 2023	305,872	3,354,508	92,076	-	1,269,117	3,014	5,024,587

An aging analysis of the loan portfolio is as follows:

		Past Due Status				
	Current	**1 - 30 Days**	**31 - 60 Days**	**61 - 90 Days**	**90 or More Days***	**Total Loans**
December 31, 2023:						
Core 1	589,344	55,763	28,122	28,547	61,243	763,019
Core 2	9,191,958	937,700	377,458	458,891	965,493	11,931,500
Core 3	547,644	206,838	69,921	-	-	824,403
CSBRF	5,943,760	209,115	88,131	96,211	106,320	6,443,537
ISBEL	748,678	23,698	923	-	22,328	795,627
Other	90,984	-	-	-	415	91,399
	17,112,368	1,433,114	564,555	583,649	1,155,799	20,849,485

6. **Loans Receivable** (cont'd)

	Past Due Status					
	Current	**1 - 30 Days**	**31 - 60 Days**	**61 - 90 Days**	**90 or More Days***	**Total Loans**
December 31, 2022:						
Core 1	369,315	72,630	39,892	32,336	67,543	581,716
Core 2	10,160,813	960,339	513,040	241,469	447,466	12,323,127
Core 3	65,763	-	-	45,648	-	111,411
CSBRF	10,283,770	233,144	120,702	106,570	280,618	11,024,804
ISBEL	1,292,519	-	-	49,600	42,170	1,384,289
Other	140,558	-	-	-	-	140,558
	22,312,738	1,266,113	673,634	475,623	837,797	25,565,905

* - Not accruing interest

Substantially all of the Organization's borrowers are unable to obtain credit through a traditional banking relationship. The aging of the receivables is the primary credit quality indicator. Loans that are past due inherently have a greater risk of default than loans that are current.

Core 1 Loans – Core 1 loans are typically unsecured loans with a maximum borrowing of $2,500 and maturities of twelve to twenty-four months from the time the loan is funded.

Core 2 Loans – Core 2 loans are typically unsecured loans with a maximum borrowing between $2,500 and $25,000 and typically have maturities of twenty-four to forty-eight months from the time the loan is funded.

Core 3 Loans – Core 3 loans are typically unsecured loans with a maximum borrowing between $25,000 and $100,000 and typically have maturities of up to thirty-six months from the time the loan is funded.

Core Revolving Lines of Credit – The Organization offers revolving lines of credit, typically with a limit between $2,500 and $100,000 to early, emerging and established businesses in Illinois and Indiana. The lines of credit typically have a maturity of twenty-four to forty-eight months from the date the line of credit is opened. Since the terms of these loans are effectively the same as the applicable core loan categories above, these loans are included in the applicable core loan category for purposes of loan segmentation.

6. **Loans Receivable** (cont'd)

Chicago Small Business Resiliency Fund (CSBRF) Loans – In 2020, the Organization offered CSBRF loans as a part of the City of Chicago response to the COVID-19 pandemic. CSBRF loans cannot exceed $50,000 or a five-year term. Interest rates are at 1% for the first eighteen months and 5.75% thereafter. A $10 payment was required in the first six months for account maintenance purposes and interest-only payments were due in the second six months. Principal and interest payments began after one year. As disclosed in Note 2, at December 31, 2022, the Organization had on deposit $5,487,309 from the City of Chicago Department of Business Affairs and Consumer Protection (BACP) that was restricted by the City of Chicago for the purposes of providing a loan loss reserve in connection with the CSBRF loan program, paying certain loan origination fees to the Organization, and, in certain circumstances, funding debt service payments on Small Business Resiliency Loan Fund ("SBRLF") debt (see Note 10), which effectively equated to the City of Chicago providing for 25% – 40% of first loss coverage in the form of a grant. In 2023, the Organization paid off the SBRLF debt and the City of Chicago agreed to remove the restriction on the related cash account.

Illinois Small Business Emergency Loans (ISBEL) – In 2020, the Organization offered ISBEL loans as a part of the State of Illinois response to the COVID-19 pandemic. ISBEL loans cannot exceed $50,000 or a five-year term and interest rates are not to exceed 3%. No payments were due for the first six months and principal and interest payments were due monthly beginning in month seven. The State of Illinois has provided the Organization with a 50% first loan loss coverage in the form of a guarantee for this loan program.

Other Loans

The Organization entered into the CA SBLCs program with the SBA. Under the terms of the CA SBLCs program, the SBA provides a guarantee under its 7(a) loan program covering risk of loss against approved loans meeting the program requirements. The Guaranty covers 85% of loans originated for less than $150,000. The Organization's lending limit is $100,000, but all loans over $50,000 must be approved under the CA SBLCs program to mitigate the risk of loss. The maximum interest rate allowable under these loans is prime plus 6%. The SBA allows the sale of the guaranteed portion of the loan on the secondary market.

During 2023 and 2022, the Organization did not originate nor sell any CA SBLCs loans. The remaining principal balance of the sold portion of CA SBLCs loans was $151,469 at December 31, 2023 ($201,868 at December 31, 2022). The Organization continues to service the sold participating interests on behalf of those that have purchased the participating interests.

Among other compliance requirements, the CA SBLCs program requires the establishment of loan reserves equal to at least 5% of the unguaranteed and guaranteed portion of the CA SBLCs portfolio. At December 31, 2023, the organization had the required reserves of $8,910 included in restricted cash (see Note 2).

In addition to loans originated under the SBA CA SBLCs program, the Organization funds loans under various programs that are also included in other loans.

6. **Loans Receivable** (cont'd)

Micro Loan Servicing Agreements – The Organization maintains an agreement with a third party to service substantially all of its loan portfolio, with the exception of its SBA CA SBLCs loan portfolio, including micro loans sold by the Organization. In 2023, the Organization changed service providers to a new vendor to service these loans. The third-party servicers are responsible for record keeping, compliance with regulatory requirements, collection and remittance of funds to the Organization. Expense for loan servicing under the agreements are included in credit and collection expense on the statement of functional expenses and was $423,757 for the year ended December 31, 2023 ($195,676 for the year ended December 31, 2022).

The Organization also maintains an agreement with a bank to service its SBA CA SBLCs loan portfolio. The agreement provides that the bank will be responsible for record keeping, compliance with regulatory requirements, collection and remittance of funds to the Organization. In consideration for these services, the Organization pays the bank a fee. The servicing fee was $1,806 for the year ended December 31, 2023 ($2,291 for the year ended December 31, 2022).

7. **Availability and Liquidity**

Liquidity expected to be available to meet cash needs for general expenditures within one year, without contractual or donor restrictions consist of the following:

	2023	2022
Unrestricted cash	**$ 5,419,811**	$ 3,680,472
Contributions and government receivables	**590,801**	407,576
Loans receivable, net	**15,824,898**	23,366,049
	21,835,510	27,454,097
Less:		
Revolving loan fund receivables, net	**(2,708,587)**	(2,201,736)
Other micro loan receivables, net	**(13,092,595)**	(21,131,703)
SBA CA SBLCs loan receivables, net	**(23,716)**	(32,610)
Plus:		
Principal and interest expected to be collected in one year:		
Other micro loan receivables	**8,679,959**	9,890,492
SBA CA SBLCs loan receivables	**11,815**	11,815
	$ 14,702,386	$ 13,990,355

7. **Availability and Liquidity** (cont'd)

Allies for Community Business is committed to its mission of providing access to credit and technical assistance for micro-entrepreneurs. The Organization continues to solicit operating grants from new sources and maintains a line of credit for liquidity. The Organization strives to be self-reliant for training the lending staff and facilitating underwriting decisions. The Organization has been successful in its ability to refinance debt and extend maturities while converting certain debts to equity equivalent debt (see Note 10). In summary, the Organization relies on grants and contributions from donors, loan repayments, and calls on the equity equivalent debt to fund operating expenses, as necessary, during the year.

Restricted cash is not considered to be available, as there are various contractual restrictions that govern what it can be used for, as described in Note 2.

Revolving loan fund (RLF) receivables are loans receivable where principal and interest repayments are required per the donor to be held in the RLF and are therefore not considered to be available to meet the general cash needs of the Organization.

Principal and interest expected to be collected in one year for other Micro Loan receivables and SBA CA SBLCs loan receivables are based on amortization schedules of the detail respective loan portfolios.

As of the date these financial statements were available to be issued, due to economic uncertainties including inflationary pressures and a rising interest rate environment, the availability and liquidity of loans receivable may be impacted but is not quantifiable.

8. **Funds Held for Others**

Funds held for others at December 31, are as follows:

	2023	2022
Private foundation funding held as an agent	**$ 270,000**	$ 145,000
West Side United Grant Pool	**140,000**	13,000
Other funds held for others	**61,204**	70,216
	$ 471,204	$ 228,216

9. **Leases**

The Organization has a lease agreement with The Hatchery Master Tenant, LLC (the "Landlord") (Note 4) that is accounted for as an operating lease. The lease commenced on January 1, 2019 and ends on December 31, 2024. Future monthly base rentals are $17,272 in 2024. The Organization has the option to extend the term of the lease for three consecutive terms of five years each, with 3% annual escalation in base rent or current market rent. Management believes the Organization is reasonably certain to exercise all three extension periods. In addition to base rent, the Organization is charged for common area maintenance costs and parking. Operating lease ROU assets and operating lease liabilities of $3,615,812 and $3,751,052, respectively, at December 31, 2023, and $3,808,577 and $3,878,189, respectively, at December 31, 2022 associated with this lease is included on the statement of financial position as of December 31, 2023.

9. **Leases** (cont'd)

Operating lease cost is recognized on a straight-line basis over the lease term and is included in occupancy expenses on the statement of functional expenses. Operating lease cost included in the calculation of the operating lease ROU asset and operating lease liability was $268,829 in 2023 and 2022.

The Organization's operating lease agreements include variable payments based on actual costs to operate the building, which are not determinable at the lease commencement and are not included in the measurement of the lease assets and liabilities. Variable lease payments included in the operating lease cost above that are included in occupancy expenses were $351,639 and $310,861 in 2023 and 2022.

The weighted-average remaining lease term was 17 years and 16 years at December 31, 2023 and 2022, respectively, and the weighted average discount rate as of December 31, 2023 and 2022 was 2.00% for the operating lease recognized in the financial statements.

Future minimum lease payments due under noncancelable operating leases with initial or remaining lease terms in excess of one year consisted of the following at December 31, 2023:

2024	$ 207,265
2025	227,392
2026	234,214
2027	241,240
2028	248,477
Thereafter	3,277,920
Total minimum lease payments	4,436,508
Less imputed interest	(685,456)
Present value of operating lease liabilities	$ 3,751,052

10. Notes Payable

Notes payable at December 31, are summarized as follows:

Lender		Interest Rate 12/31/23	Interest Rate 12/31/22	Interest Terms	Maturity at 12/31/23	Maturity at 12/31/22	Balance at December 31, 2023	Balance at December 31, 2022
Secured Debt								
Small Business Resiliency Loan Fund (SBRLF)	(1)		1.75%	Monthly		04/30/26	$ -	$ 1,944,661
Shelf Note SBRLF	(1)		1.75%	Monthly		05/18/26	-	1,897,684
Shelf Note SBRLF	(1)		1.75%	Monthly		06/01/26	-	3,889,024
CIBC	(2)		1.50%	Annually		12/29/25	-	750,000
Fifth Third Bank line of credit	(3)	**7.38%**	6.50%	Monthly	**08/15/24**	06/14/23	-	200,000
Small Business Administration	(4)	**0.50%**	0.50%	Monthly	**05/13/24**	05/13/24	**21,692**	50,488
							21,692	8,731,857
Unsecured Debt								
CDFI Fund	(5)	**0.00%**	0.00%	Quarterly	**12/31/57**	12/31/57	**428,400**	441,000
Federal Home Loan Bank of Chicago	(6)	**2.13%**	2.13%	Quarterly	**07/08/26**	07/08/26	**1,250,000**	500,000
Starbucks	(7)	**2.00%**	2.00%	Annually	**09/04/27**	09/04/27	**2,350,000**	2,350,000
Rush University Medical Center		**2.00%**	2.00%	Quarterly	**12/31/24**	12/31/24	**500,000**	500,000
Rush University Medical Center		**2.00%**	2.00%	Quarterly	**09/30/26**		**250,000**	-
The Northern Trust		**2.00%**	2.00%	Semiannual	**04/08/25**	04/08/25	**500,000**	500,000
The Northern Trust		**1.50%**	1.50%	Semiannual	**05/01/25**	05/01/25	**1,500,000**	1,500,000
The Northern Trust		**1.50%**	1.50%	Semiannual	**04/29/25**	04/29/25	**100,000**	100,000
Burling Bank		**1.50%**	1.50%	Quarterly	**04/24/25**	04/24/25	**250,000**	250,000
Republic Bank		**1.50%**	1.50%	Quarterly	**07/06/25**	07/06/25	**314,473**	536,695
Adrian Dominican Sisters		**0.00%**	0.00%	N/A	**10/26/25**	10/26/25	**250,000**	250,000
MacArthur Foundation	(8)	**1.00%**	1.00%	Quarterly	**12/15/25**	12/15/25	**3,000,000**	3,000,000
Community Savings Bank		**0.00%**	0.00%	N/A	**12/31/57**	12/31/57	**68,000**	70,000
Google Opportunity Finance Network	(9)	**2.00%**	2.00%	Quarterly	**06/30/26**	06/30/26	**2,000,000**	2,000,000
Northern Illinois Community Initiatives, Inc		**1.50%**		Quarterly	**02/28/27**		**250,000**	-
							13,010,873	11,997,695
Unsecured Subordinated Debt								
Devon Bank		**2.00%**	2.00%	Quarterly	**03/26/24**	03/26/24	**80,096**	80,096
Old National Bank		**2.00%**	2.00%	Quarterly	**11/30/24**	11/30/23	**50,000**	50,000
							130,096	130,096
Equity Equivalent Debt								
Bank Financial		**2.00%**	2.00%	Monthly	**01/01/25**	01/01/24	**40,000**	40,000
Bank of America		**0.00%**	0.00%	N/A	**07/01/57**	07/01/57	**50,250**	51,750
Byline Bank		**2.00%**	2.00%	Semiannual	**12/01/24**	10/27/23	**300,000**	100,000
Byline Bank		**2.00%**	2.00%	Semiannual		01/01/24	-	100,000
Fifth Third Bank		**0.00%**	0.00%	N/A	**06/30/57**	06/30/57	**130,219**	134,106
First Bank Chicago		**2.00%**	2.00%	Semiannual	**12/21/24**	12/21/23	**75,000**	75,000
First Bank of Palatine		**2.00%**	2.00%	Semiannual	**04/01/25**	04/01/24	**250,000**	250,000
First Eagle Bank		**2.00%**	2.00%	Semiannual	**09/30/24**	09/30/23	**100,000**	100,000
First Eagle Bank		**2.00%**	2.00%	Semiannual	**09/02/24**	09/02/23	**100,000**	100,000
First National Bank of Omaha		**2.00%**	2.00%	Quarterly	**05/31/26**	05/31/26	**250,000**	250,000
First Savings Bank of Hegewisch		**2.00%**	2.00%	Semiannual	**06/01/28**	01/01/25	**700,000**	600,000
Inland Bank		**2.00%**	2.00%	Semiannual		11/30/23	-	100,000
Providence Bank		**2.00%**	2.00%	Semiannual	**01/01/25**	01/01/23	**75,000**	75,000
Marquette Bank		**1.75%**	1.75%	Semiannual	**05/31/24**	05/31/24	**150,000**	150,000
Fifth Third Bank		**0.00%**	0.00%	N/A	**06/01/57**	06/01/57	**66,708**	68,700
Fifth Third Bank	(10)	**2.00%**		Quarterly	**12/31/29**		**1,250,000**	-
Northern Trust Company		**0.00%**	0.00%	N/A	**12/31/56**	12/31/56	**66,000**	68,000
Green State Credit Union		**2.00%**	2.00%	Semiannual	**01/01/25**	01/01/24	**25,000**	25,000
Pan American Bank		**2.00%**	2.00%	Semiannual	**04/01/25**	04/01/24	**75,000**	75,000
US Bank		**3.00%**	3.00%	Monthly	**04/19/24**	04/19/23	**250,000**	250,000
US Bank		**2.00%**	2.00%	Quarterly	**01/01/25**	01/01/24	**500,000**	500,000
Country Mutual Insurance Company		**1.50%**	1.50%	Semiannual	**04/30/25**	04/30/25	**125,000**	125,000
International Bank of Chicago		**2.00%**	2.00%	Semiannual	**06/14/24**	06/14/24	**100,000**	100,000
							4,678,177	3,337,556
Total							**17,840,838**	24,197,204
Less: Present value discount							**(1,264,767)**	(1,602,357)
Net long-term debt							**$ 16,576,071**	$22,594,847

10. **Notes Payable** (cont'd)

(1) The Organization had loans payable, pledge and security agreements with Chicago Community Catalyst Fund LLC for the City of Chicago's Small Business Resiliency Loan Fund ("SBRLF") program. All proceeds of the were to be used to fund loans under the CSBRF program. Monthly principal payments began at various times in 2021 and 2022 and totaled $175,926 until the loans were paid in full during 2023. The notes were collateralized by the loan loss reserve - BACP deposit account (see Note 2), and the loan documents and notes of the ultimate borrowers.

(2) The Organization had a loan with CIBC Bank, USA. Annual principal payments of $250,000 were payable on December 29 until the loan was paid in full in 2023. Interest was payable annually at 1.50%. The proceeds of the debt were used to fund loans under the ISBEL program and was subject to an intermediary agreement, where the Illinois Department of Commerce and Economic Opportunity will provide the Organization with a guarantee for 50% of the principal amount of ISBEL program loans funded by the Organization. The note was collateralized by all assets not collateralized by Fifth Third Bank pursuant to an intercreditor agreement with Fifth Third Bank and the Organization.

(3) The Organization has a revolving line of credit with Fifth Third Bank with a maximum borrowing base of the lesser of $3,000,000 or 80% of eligible accounts as defined in the business loan agreement associated with the line of credit. The line of credit was collateralized by the assets of the Organization, excluding any rights to the SBA programs and CSBRF program loans and related loan loss reserve accounts. Interest on the line of credit was payable at SOFR plus 2.00% and has a minimum interest rate of 2.00% per annum. The line of credit was subject to financial covenants, including maintaining a minimum debt service coverage ratio of 1.2 to 1. At December 31, 2023, the Organization was in compliance with the associated debt covenants.

(4) The Organization has a loan with the SBA. Principal and interest are payable monthly at a rate based upon average size of micro loans made, collateralized by cash of $157,843 and $178,527 at December 31, 2023 and 2022, respectively. The Organization is required to maintain a minimum ratio of 1.15:1 in collateralized cash plus collateralized notes receivable to SBA debt outstanding. The Organization had no collateralized loans at December 31, 2023 and 2022, and was in compliance with the covenant at December 31, 2023 and 2022.

(5) The Department of the Treasury, Community Development Financial Institutions (CDFI) Fund loan had financial covenants, defined in their original agreement, relating to net assets, net revenue, and operating and capital ratios. However, the Organization has been informed by the CDFI Fund that the repayment of this debt will not be accelerated, and they are no longer required to submit reports to the CDFI Fund associated with the debt. In 2007, the Organization further restructured the debt agreement with the CDFI Fund, capitalizing the balance of $30,000 for past interest, reducing the interest rate to 0%, extending the maturity to 2057, and requiring quarterly payments of $3,150.

10. **Notes Payable** (cont'd)

(6) In January of 2016, the Organization entered into a term note with the Federal Home Loan Bank Chicago (FHLB) for a maximum amount of $1,250,000. The term note is to be disbursed in two disbursements. The first disbursement of $500,000 was drawn in 2016. The second disbursement is contingent upon the Organization achieving specified ratios under the credit agreement as defined therein, which were achieved in 2023, and the remaining $750,000 was drawn. The note has a maturity date of 10 years from initial disbursement and the funds are to be used for loan capital. The note bears interest at 2.13% and is unsecured, but contains covenants related to the Organization's maintenance as a Community Development Financial Institution, maintaining a level of use of lent funds, maintaining minimum financial ratios related to net assets, loan performance, among others. At December 31, 2023, the Organization was in compliance with the associated debt covenants.

(7) The Organization has a loan with Starbucks Corporation. All proceeds of the debt must be used to provide financing to micro and small business owners serving low to moderate income businesses in a designated Chicagoland area. Annual principal payments of $783,333 are payable on September 4, 2025 and 2026, with the remaining balance due in 2027. Interest at 2.00% is payable annually, each September. The agreement is subject to certain financial covenants including a minimum adjusted net assets (as defined) to adjusted assets (as defined) ratio of 40% (minimum capital) and, a maximum ratio of non-performing assets (loans 120 days or more past due) to loans outstanding of 15%. In addition, the Organization cannot increase the line of credit with Fifth Third Bank without the lender's approval. The Organization was in compliance with the covenants associated with this debt at December 31, 2023.

(8) The Organization has a loan with John D. and Catherine T. MacArthur Foundation. All proceeds of the debt must be used to fund loans under the CSBRF program. The $3 million loan was interest free for eighteen months and accrues interest at 1.00% per annum, payable quarterly, thereafter. All principal and unpaid interest is due on December 15, 2025. However, an amount not to exceed $1.5 million is eligible for forgiveness if the Organization certifies that a total of $3.7 million in loan loss reserve grant funds from the City of Chicago has been allocated to offset charged-off CSBRF program loans originated by the Organization and an additional $1.5 million of CSBRF program loans have been charged-off.

(9) The Organization has a loan with Google Opportunity Finance Network. All proceeds of the debt must be used to provide technical and financial assistance to small businesses and non-profit organizations in physically blighted and economically distressed urban and rural areas with a goal to alleviate poverty, lessen the burdens of government, and/or combat community deterioration in such areas in a manner that is consistent with Opportunity Finance Network's charitable purposes and social justice mission. All principal is due on June 30, 2026. Interest is due at a fixed interest rate of 2.00% through the maturity date and is payable quarterly. The loan contains covenants related to maintaining a level of unrestricted revenues, and maintaining minimum financial ratios related to net assets, loan performance, among others. The Organization was in compliance with the covenants at December 31, 2023.

10. **Notes Payable** (cont'd)

(10) This equity equivalent debt with Fifth Third Bank is due December 31, 2029, but Fifth Third Bank has the right to exercise up to four options to extend the required repayment, with each option extending the maturity date one additional year. Up to $2,500,000 in total may be drawn on the loan through December 22, 2024, with additional draws being available if the Organization meets certain requirements. The agreement also requires the Organization to maintain a minimum ratio of net assets to total assets of 20%. At December 31, the Organization was in compliance with this covenant.

Equity Equivalent Debt, or EQ2, is a capital product for Community Development Financial Institutions and their investors. This special debt investment allows organizations like Allies for Community Business to strengthen their capital structure and increase lending and investing in economically, disadvantaged communities. It is a long-term subordinated loan, offered by regulated financial institutions to fulfill their investment requirements by meeting the credit needs of the communities in which they do business. Like permanent capital, EQ2 enhances the Organization's lending flexibility and increases its debt capacity by protecting lenders from losses. Unlike permanent capital, it must eventually be repaid. To qualify as an EQ2, the obligation is not secured, is fully subordinated, essentially cannot have accelerated repayment, carries an interest rate not tied to income received by the Organization, and has a rolling term and, therefore, a relatively indeterminate maturity.

The total interest incurred and expensed on all notes payable outstanding, other than imputed interest, was $360,505 in 2023 ($414,794 in 2022).

Maturities of debt and the present value discount for imputed interest rate on below market interest and interest-free loans at December 31, 2023, are as follows:

Future Principal Payments (Face Value)

	Secured Debt	Unsecured Debt	Unsecured Subordinated Debt	Equity Equivalent Debt	Total
2024	$ 21,692	$ 736,822	$ 130,096	$ 2,049,380	$ 2,937,990
2025	-	6,490,184	-	134,380	6,624,564
2026	-	4,297,933	-	259,380	4,557,313
2027	-	1,047,934	-	9,380	1,057,314
2028	-	14,600	-	709,380	723,980
2029 - 2033	-	73,000	-	1,296,902	1,369,902
2034 - 2038	-	73,000	-	46,900	119,900
2039 -2043	-	73,000	-	46,900	119,900
2044 -2048	-	73,000	-	46,900	119,900
2049 - 2053	-	73,000	-	46,900	119,900
2054 - 2057	-	58,400	-	31,775	90,175
	$ 21,692	$13,010,873	$ 130,096	$ 4,678,177	$ 17,840,838

10. **Notes Payable** (cont'd)

Debt Discount Amortization

	Secured Debt	Unsecured Debt	Unsecured Subordinated Debt	Equity Equivalent Debt	Total
2024	$ -	(332,271)	$ -	$ (20,236)	$ (352,507)
2025	-	(306,917)	-	(16,010)	(322,927)
2026	-	(123,701)	-	(14,372)	(138,073)
2027	-	(26,079)	-	(14,294)	(40,373)
2028	-	(12,704)	-	(10,168)	(22,872)
2029 - 2033	-	(61,098)	-	(39,110)	(100,208)
2034 - 2038	-	(56,164)	-	(35,905)	(92,069)
2039 -2043	-	(49,193)	-	(30,485)	(79,678)
2044 -2048	-	(39,346)	-	(25,012)	(64,358)
2049 - 2053	-	(25,368)	-	(15,975)	(41,343)
2054 - 2057	-	(6,477)	-	(3,882)	(10,359)
	-	(1,039,318)	-	(225,449)	(1,264,767)
Total debt, net	$ 21,692	$11,971,555	$ 130,096	$ 4,452,728	$ 16,576,071

11. **Commitments and Contingencies**

Financial Instruments with Concentration of Credit Risk – Loans range in size from $500 to $100,000, while their terms generally range from 2 to 60 months, with the exception of SBA CA SBLCs loans that have a maximum term of 120 months. Collateral and cosigners may be required, depending upon the loan amount and the perceived credit risk. While the Organization serves all of Illinois and Indiana, most of the Organization's business activity is with borrowers located throughout Illinois, with the majority of these borrowers concentrated in the Chicagoland area. Geographic concentration risk on the Organization's borrowers arises largely from the influence of economic conditions in the Midwest region, and particularly, the Chicagoland area. The Organization's lending limit is $100,000 with the SBA CA SBLCs program. Under that program, the SBA provides an 85% guarantee of the loan balance if the loan is underwritten and monitored in accordance with program standards.

The Organization has extended credit to some of its borrowers in the form of revolving lines of credit. The commitment in excess of amounts lent on these revolving lines of credit approximates $1,153,000 at December 31, 2023.

11. **Commitments and Contingencies** (cont'd)

Fees and Grants Received – The Organization has received significant financial assistance from federal, state and local government agencies. The disbursement of funds received under these programs, including payments made by governmental agencies to extinguish the Organization's debt, generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Organization. In 2021 and 2020, there were disbursements made in error under a grant program for which the Organization was acting as an agent. The amount, if any, of liability to the Organization is not determinable. Management does not believe the risk related to this issue of other potentially disallowable claims is probable.

12. **Restrictions and Limitations on Net Assets**

Net assets with donor restrictions at December 31, consisted of the following:

	2023	2022
EDA revolving loan funds	**$ 2,301,837**	$ 2,536,690
CSBRF loan loss reserve	**-**	5,487,309
Imputed Interest on below market and interest-free loans	**1,264,767**	1,602,357
The Chicago Community Trust - loan loss reserve funds	**1,000,000**	-
Neighborhood Entrpreneur Lab funds	**944,428**	246,480
Capital and Coaching for Chicagoland entreprenuers	**655,760**	425,833
Entreprenuers of Color funds	**461,683**	904,782
Funding for Lake County, Illinois activties	**402,248**	120,000
City of South Bend - loan funds	**135,750**	148,250
Tory Burch - loan funds	**104,658**	149,598
ChiBizHub Portal and Programming	**91,193**	-
Bank of America - funds for SBA loan loss reserve	**60,000**	60,000
Other Chicago Community Trust grant funds	**-**	891,317
Wells Fargo - loan funds	**-**	587,407
Google Opportunity Finance Network	**-**	273,020
Opportunity Fund - BTAD	**-**	75,000
Other purpose restricted contibutions	**139,068**	98,946
	$ 7,561,392	$ 13,606,989

13. **Employee Benefit Plan**

The Organization has a SIMPLE Individual Retirement Account Plan that covers all full-time employees. The plan calls for the Organization to match employee contributions to the plan dollar-for-dollar up to a maximum of 3% of employee compensation. Benefit plan expense was $76,363 for the year ended December 31, 2023 ($68,061 in 2022).

14. **Related Parties**

From time to time, the Organization procures grants, financial products, and services from members of the Board of Directors or the organizations that employ them. These transactions are in the ordinary course of the Organization's business.

15. **Subsequent Events**

Subsequent events have been evaluated through May 17, 2024, which is the date the financial statements were available to be issued.

Subsequent to December 31, 2023, the Organization signed a lending agreement that provides for debt, in the amount of $1,000,000 to raise lending capital for one of the Organization's lending programs. Quarterly interest payments at 3% per annum are due on the outstanding balance of the note starting in March 2024. Principal on the loan is due at maturity in January 2027.

Subsequent to December 31, 2023, the Organization received various grants for restricted purposes totaling approximately $5,400,000.