SOS CHILDREN'S VILLAGES ILLINOIS, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Years Ended
December 31, 2014 and 2013

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630.566.8400 // www.sikich.com

1415 W. Diehl Road, Suite 400
Naperville, Illinois 60563

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
SOS Children's Villages Illinois, Inc.
Chicago, Illinois

We have audited the accompanying financial statements of SOS Children's Villages Illinois, Inc. (the Organization), which comprise the statement of financial position of as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of SOS Children's Villages Illinois, Inc. as of December 31, 2013 were audited by other auditors whose report dated May 27, 2014, expressed an unmodified opinion on those statements.

Sikich LLP

Naperville, Illinois
June 23, 2015

FINANCIAL STATEMENTS

SOS CHILDREN'S VILLAGES ILLINOIS, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash	$ 5,182,414	$ 2,006,123
Investments	1,837,628	1,824,473
Service fees receivable	235,674	151,301
Contributions receivable, net	56,800	36,471
Other receivables, net	308,965	25,648
Prepaid expenses and other assets	28,342	78,811
Total current assets	7,649,823	4,122,827
PROPERTY AND EQUIPMENT		
Land	6,509,283	6,509,283
Building and improvements	25,004,872	17,840,400
Furniture and equipment	3,117,000	2,653,669
Vehicles	1,066,266	943,767
Construction in progress	132,179	157,584
Total, at cost	35,829,600	28,104,703
Less accumulated depreciation	(10,502,319)	(9,462,794)
Net property and equipment	25,327,281	18,641,909
OTHER ASSETS		
Investments - board-designated	4,425,652	4,126,995
Deposits	213,570	215,781
Bond closing costs, net of amortization	351,192	110,302
Total other assets	4,990,414	4,453,078
TOTAL ASSETS	$ 37,967,518	$ 27,217,814

	2014	2013
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 1,336,670	$ 177,975
Accrued expenses	348,342	448,010
Current portion of long-term debt	369,760	193,760
Current portion of forgivable loan	9,706	9,706
Obligation under interest rate swap	-	811,782
Total current liabilities	2,064,478	1,641,233
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	16,270,960	8,452,097
Long-term forgivable loan, net of current portion	297,647	307,353
Obligation under interest rate swap	1,026,753	-
Total long-term liabilities	17,595,360	8,759,450
Total liabilities	19,659,838	10,400,683
NET ASSETS		
Unrestricted		
Undesignated	13,367,071	12,286,514
Board-designated	4,425,652	4,126,995
Total unrestricted	17,792,723	16,413,509
Temporarily restricted	514,957	403,622
Total net assets	18,307,680	16,817,131
TOTAL LIABILITIES AND NET ASSETS	$ 37,967,518	$ 27,217,814

See accompanying notes to financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
Government and service contracts			
Illinois Department of Children and Family Services (DCFS)	$ 8,325,381	$ -	$ 8,325,381
Runaway and Homeless Youth	142,623	-	142,623
Contributions	2,205,172	137,397	2,342,569
Special events revenue, net of $126,809 of cost of direct benefit to donors	457,548	-	457,548
In-kind donations	366,269	-	366,269
Interest income	137,214	-	137,214
Investment income	164,868	-	164,868
Other income	366,171	-	366,171
Net assets released from restriction	26,062	(26,062)	-
Total support and revenue	12,191,308	111,335	12,302,643
EXPENSES			
Program services	8,355,179	-	8,355,179
Management and general	1,616,601	-	1,616,601
Fundraising	625,343	-	625,343
Total expenses	10,597,123	-	10,597,123
CHANGE IN NET ASSETS BEFORE OTHER REVENUE (EXPENSES)	1,594,185	111,335	1,705,520
OTHER REVENUE (EXPENSES)			
Change in fair value of interest rate swap	(214,971)	-	(214,971)
CHANGE IN NET ASSETS	1,379,214	111,335	1,490,549
NET ASSETS, BEGINNING OF YEAR	16,413,509	403,622	16,817,131
NET ASSETS, END OF YEAR	$ 17,792,723	$ 514,957	$ 18,307,680

See accompanying notes to financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
Government and service contracts			
Illinois Department of Children and Family Services (DCFS)	$ 7,994,484	$ -	$ 7,994,484
Runaway and Homeless Youth	117,730	-	117,730
Contributions	353,526	166,678	520,204
Special events revenue, net of $313,753 of related expenses	436,520	-	436,520
In-kind donations	1,615,870	-	1,615,870
Interest income	117,581	-	117,581
Investment income	485,257	-	485,257
Other income	261,784	-	261,784
Net assets released from restriction	61,327	(61,327)	-
Total support and revenue	11,444,079	105,351	11,549,430
EXPENSES			
Program services	8,143,216	-	8,143,216
Management and general	1,281,855	-	1,281,855
Fundraising	290,867	-	290,867
Total expenses	9,715,938	-	9,715,938
CHANGE IN NET ASSETS BEFORE OTHER REVENUE (EXPENSES)	1,728,141	105,351	1,833,492
OTHER REVENUE (EXPENSES)			
Change in fair value of interest rate swap	352,077	-	352,077
CHANGE IN NET ASSETS	2,080,218	105,351	2,185,569
NET ASSETS, BEGINNING OF YEAR	14,333,291	298,271	14,631,562
NET ASSETS, END OF YEAR	$ 16,413,509	$ 403,622	$ 16,817,131

See accompanying notes to financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014

	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES				
Salaries	$ 3,376,284	$ 599,061	$ 184,287	$ 4,159,632
Fringe benefits	986,821	168,149	51,462	1,206,432
Total salaries and related expenses	4,363,105	767,210	235,749	5,366,064
OTHER EXPENSES				
Contract personnel	519,973	38,133	10,612	568,718
Professional services	80,584	282,990	46,940	410,514
Staff recruitment	-	25,695	47	25,742
Staff development	1,562	16,033	213	17,808
Staff travel	53,883	9,130	3,260	66,273
Home budget expense	703,416	-	-	703,416
Program expense/supplies	63,331	18,163	-	81,494
Program services	97,096	450	-	97,546
Vehicles	249,016	1,225	2,327	252,568
Utilities	217,357	8,992	934	227,283
Building and grounds	255,369	88,734	18,469	362,572
Insurance	83,565	27,850	1,668	113,083
Other office expenses	249,421	118,106	23,174	390,701
Fundraising/public relations	-	206	269,724	269,930
Miscellaneous	-	52,707	1,029	53,736
Interest expense	394,453	93,792	-	488,245
Uncollectible pledge expense	-	15,058	-	15,058
Total other expenses	2,969,026	797,264	378,397	4,144,687
Total expenses before depreciation and amortization	7,332,131	1,564,474	614,146	9,510,751
Depreciation and amortization	1,023,048	52,127	11,197	1,086,372
TOTAL FUNCTIONAL EXPENSES	$ 8,355,179	$ 1,616,601	$ 625,343	$ 10,597,123

See accompanying notes to financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES				
Salaries	$ 3,262,758	$ 444,000	$ 69,766	$ 3,776,524
Fringe benefits	983,016	124,289	22,598	1,129,903
Total salaries and related expenses	4,245,774	568,289	92,364	4,906,427
OTHER EXPENSES				
Contract personnel	430,615	43,372	16,700	490,687
Professional services	40,159	304,601	796	345,556
Staff recruitment	19,405	22,145	1,185	42,735
Staff development	10,440	11,913	637	22,990
Staff travel	33,688	38,441	2,056	74,185
Home budget expense	664,076	-	-	664,076
Program expense/supplies	86,021	813	-	86,834
Program services	90,627	856	-	91,483
Vehicles	283,516	2,024	1,192	286,732
Utilities	177,783	4,974	912	183,669
Building and grounds	314,936	63,529	19,236	397,701
Insurance	50,471	28,112	5,674	84,257
Other office expenses	263,099	80,953	18,252	362,304
Fundraising/public relations	-	799	122,528	123,327
In-kind	-	34,138	-	34,138
Miscellaneous	94	3,865	-	3,959
Interest expense	404,022	12,496	-	416,518
Uncollectible pledge expense	-	31,503	-	31,503
Total other expenses	2,868,952	684,534	189,168	3,742,654
Total expenses before depreciation and amortization	7,114,726	1,252,823	281,532	8,649,081
Depreciation and amortization	1,028,490	29,032	9,335	1,066,857
TOTAL FUNCTIONAL EXPENSES	$ 8,143,216	$ 1,281,855	$ 290,867	$ 9,715,938

See accompanying notes to financial statements.

SOS CHILDREN'S VILLAGES OF ILLINOIS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,490,549	$ 2,185,569
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,086,372	1,066,857
Change in interest rate swap liability	214,971	(352,077)
Change in value of forgivable loan	(9,706)	(12,941)
Change in discount on receivables	(684)	(685)
Allowance for uncollectible pledges	15,058	31,503
Gain on sale of property and equipment, net	(2,750)	(3,042)
Contributions restricted for long-term purposes	(1,854,488)	-
Donated property and equipment	(289,611)	(1,570,000)
Unrealized gain on investments	(7,638)	(472,209)
Realized gain on investments	(157,230)	(13,048)
Effects of changes in operating assets and liabilities		
Receivables	(402,393)	129,520
Prepaid expenses and other assets	(198,371)	(181,574)
Accounts payable	1,158,695	74,669
Accrued expenses	(99,668)	2,875
Net cash from operating activities	943,106	885,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(7,475,222)	(534,336)
Proceeds from sale of property and equipment	6,000	500
Purchase of investments	(3,376,423)	(3,200,781)
Proceeds from sale of investments	3,229,479	3,085,333
Net cash from investing activities	(7,616,166)	(649,284)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	1,854,488	-
Proceeds from long-term debt	16,000,000	-
Payments on long-term debt	(8,005,137)	(184,363)
Net cash from financing activities	9,849,351	(184,363)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,176,291	51,770
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,006,123	1,954,353
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,182,414	$ 2,006,123

See accompanying notes to financial statements.

1. NATURE OF ACTIVITIES

SOS Children's Villages Illinois, Inc. (the Organization) is a nonprofit corporation incorporated in the state of Illinois on November 3, 1988. The Organization has three children's villages located in Illinois. The Lockport Village was the first Village in Illinois and was formed to provide foster care for children. Lockport Village was completed in January of 1994 and consists of 18 single-family homes, along with a community/activity center and administrative offices. Children reside in each of the homes under the guidance of a full-time trained and certified Organization foster parent.

On August 26, 2004, the Organization opened its first Urban Foster Care Village (Chicago Village). The Chicago Village consists of 12 single-family homes and four duplexes, which house foster children and professional foster parents. Chicago Village also includes 24 homes for moderate-income families through the Chicago Department of Housing's New Homes for Chicago. The centerpiece of the Chicago Village is a community center that includes day care, an infant and toddler program, an outpatient therapy center, meeting rooms, and administrative offices, which opened on September 5, 2007. The community center is open to the entire Auburn-Gresham community.

On December 30, 2011, the Organization acquired Casa Tepeyac, which offers a group residential living program and family strengthening services. The group residential living program offers short-term shelter designed to assist at-risk youth between the ages of 10 and 17. The family strengthening services help families build on their strengths, tackle tough problems, and provide assistance to youth issues.

On October 31, 2014, the Organization dedicated its second Urban Foster Care Village, Roosevelt Square Village, located in the Near West Side, Little Italy and University Village neighborhood. Roosevelt Square Village consists of 14 duplex homes. The Roosevelt Square Village homes were made possible through funding and collaboration with the City of Chicago, the Chicago Housing Authority, and a bond placement with North Shore Community Bank & Trust Co. Currently, temporary administrative offices are shared with the Heartland Alliance. As an integral part of Roosevelt Square Village, the Organization has plans for constructing a village community center.

The Organization has been established and operated in accordance with the rules and regulations and criteria established by the SOS Kinderdorf International, a related party, which is headquartered in Innsbruck, Austria, to the extent there is no conflict with any applicable federal or state laws or regulations.

1. NATURE OF ACTIVITIES (Continued)

The Organization's program services are as follows:

Lockport, Chicago, and Roosevelt Square Villages

The Organization builds families by providing stable homes in a supportive community environment, designed to help children in need to grow into caring, productive, and self-reliant adults. The Organization strives to be the premier foster care agency in Illinois by putting the needs of children first, working closely with parents, staff, and the community to deliver nurturing, innovative, and quality services.

Each child in the Organization's care lives with a full-time SOS parent, and siblings live side by side under one roof. One of the Organization's primary goals is to reunite siblings previously separated and keep them together whenever possible. The Organization welcomes traumatized children and works to help them make the transition into self-reliant, productive adults, all while receiving the support of their biological brothers and sisters. The Organization's model also provides case workers, therapists, and other supportive services on site, which improves the ability to help the children. The village concept creates a community environment, which ultimately provides much needed roots for the foster children and helps stabilize their environment.

The Organization offers a wide range of program activities and initiatives in conjunction with its foster care program, including tutoring, mentoring, recreational, and social opportunities, as well as program activities for adolescent parents and transitional living services.

Casa Tepeyac

Casa Tepeyac offers a group residential living program and family strengthening services. The group residential living program offers short-term shelter designed to assist at-risk youth between the ages of 10 and 17. This program also assesses and treats youth involved in the juvenile justice system. The program's objective is to instill healing for the abused, while providing a safe shelter for runaway and homeless youth. This safe haven teaches youth to stay off the streets and remain in school, while making better choices to become self-sufficient.

The family strengthening services help families build on their strengths, tackle tough problems, and provide assistance to youth dealing with issues related to gang involvement or intimidation, delinquency, academics, and relationships. The services provided serve two purposes: 1) help decrease family crises to prevent youth from being removed from the home due to behavioral challenges and/or parenting issues, and 2) address high-risk behavioral situations at a critical point in the youth's life to offset the likelihood of becoming gang involved. The Organization's staff works with the families in their homes, typically for a period of three months to help parents gain new child-rearing skills, attain supportive services, and resolve conflict and crisis within the family.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting.

Financial Statement Presentation

Financial statement presentation follows accounting principles generally accepted in the United States of America for nonprofit organizations. Accounting principles generally accepted in the United States of America require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows and a statement of functional expenses. The Organization has no permanently restricted net assets.

Investments

Investments consist of money market funds, domestic and foreign securities, real estate investment trusts, U.S. Treasury obligations, U.S. Government agencies, and corporate and foreign bonds. Investments - board-designated, includes funds which had been specifically identified by the Organization's board to establish a long-term reserve. Investments are carried at fair value with unrealized and realized gains and losses on investments reported as increases in unrestricted net assets. Realized and unrealized gains and losses are reported as investment income in the statements of activities.

Service Fees Receivable

Service fees receivable are uncollateralized obligations primarily from government agencies, which are generally paid within 30 days from the billing date. Service fees receivable are stated at the invoice amount.

The carrying amount of service fees receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. All amounts are deemed collectible as of December 31, 2014 and 2013.

Property and Equipment

Purchased property and equipment are stated at cost. Property and equipment purchases in excess of $500 per unit are capitalized. Maintenance repairs or minor improvements which neither materially add to the value of the property nor appreciably prolong its life are expensed as incurred. Gains or losses on dispositions of property and equipment are included in income. Donated property and equipment are stated at fair market value at the date of the donation. Gifts of cash or other assets that must be used to acquire property and equipment are reported as temporarily restricted support. Absent explicit donor stipulations about how those assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

The Organization depreciates its property and equipment using the straight-line method over the estimated useful lives of the assets, which are as follows:

	Years
Buildings and building improvements	10-30
Furniture and equipment	3-10
Vehicles	5

Depreciation expense for the years ended December 31, 2014 and 2013 was $1,076,211 and $1,062,611, respectively.

During the year ended December 31, 2014, the Organization capitalized $163,428 in interest costs associated with the construction of Roosevelt Square Village. This amount is included in building and improvements on the statements of financial position.

Bond Closing Costs

The Organization has incurred various bond closing costs from the issuance of bonds (Note 6). These costs have been deferred and are amortized over the life of the respective bonds. Amortization expense for the years ended December 31, 2014 and 2013 was $10,161 and $4,246, respectively. In addition, the unamortized bond closing costs from the Series 2009 bonds of $115,766 were charged to expense during the year ended December 31, 2014.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Rate Swap

During 2008, the Organization entered into an interest rate swap to manage risks related to interest rate movements. This interest rate swap outstanding at December 31, 2014 was refinanced in 2014 with the issuance of the Series 2014 bond and an associated interest rate swap agreement (Note 8). The interest rate swap contract is reported at fair value. The gains or losses on the swap are included as a component of changes in net assets. The Organization's interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap contract to effectively convert variable rate debt to a fixed rate.

Support and Revenues

The Organization receives a significant portion of its operating funds from grants and awards. These funds are reported as unrestricted support as the grants reimburse the Organization for services provided.

The Organization records contributions in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations. Contributions are recognized as revenue when the donor makes a promise to give that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the year in which the contributions are recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

In-kind Donations

In-kind donations of property, equipment, or materials are recorded as financial support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Conditional transfers of assets are recognized when the conditions on which they depend are substantially met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind Donations (Continued)

Donations of services are recorded if they create or enhance a nonfinancial asset or are specialized skills that would be purchased if they were not donated. For the years ended December 31, 2014 and 2013, the Organization received $48,407 and $32,929, respectively, of legal, writing/public relations, and other miscellaneous services. These services were recorded as expenses in the financial statements. The Organization received $289,611 and $1,570,000 in capitalized in-kind donations for the years ended December 31, 2014 and 2013, respectively.

Functional Allocation of Expenses

The costs of providing various program and supporting services have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Expenses are charged to each function based on direct expenditures incurred. Any expenditures not directly chargeable are allocated to the programs based on the proportional use of the service provided.

Use of Estimates

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

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Organization has adopted the requirements for accounting for uncertain tax positions. The Organization has determined that it is not required to record a liability related to uncertain tax positions for the years ended December 31, 2014 and 2013.

The Organization files returns in the U.S. federal jurisdiction and in the state of Illinois. The federal and state tax returns of the Organization for 2011, 2012, and 2013 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Organization uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The measurement framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The measurement framework defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1: Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2: Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

The following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy:

<u>Investments</u>

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for Level 2 investments are determined by reference to quoted market transactions for assets similar to those held to support the underlying assets. The Organization does not have Level 3 investments.

<u>Interest Rate Swap</u>

The fair value of the interest rate swap is estimated by a third party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties. Such securities are classified within Level 2 of the valuation hierarchy.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Interest Rate Swap (Continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2014 and 2013 are as follows:

	2014			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments				
Money market funds	$ 78,389	$ -	$ 78,389	$ -
U.S. Government agencies	1,166,120	-	1,166,120	-
U.S. Treasury obligations	1,430,974	1,430,974	-	-
Corporate and foreign bonds	1,154,659	-	1,154,659	-
Domestic common stock	2,203,235	2,203,235	-	-
Foreign common stock	189,252	189,252	-	-
Real estate trusts	40,651	40,651	-	-
TOTAL INVESTMENTS	$ 6,263,280	$ 3,864,112	$ 2,399,168	$ -
Interest rate swap	$ 1,206,753	$ -	$ 1,206,753	$ -

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Interest Rate Swap (Continued)

	2013			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments				
Money market funds	$ 265,139	$ -	$ 265,139	$ -
U.S. Government agencies	986,657	-	986,657	-
U.S. Treasury obligations	1,432,378	1,432,378	-	-
Corporate and foreign bonds	854,870	-	854,870	-
Domestic common stock	2,220,892	2,220,892	-	-
Foreign common stock	155,487	155,487	-	-
Real estate trusts	36,045	36,045	-	-
TOTAL INVESTMENTS	$ 5,951,468	$ 3,844,802	$ 2,106,666	$ -
Interest rate swap	$ 811,782	$ -	$ 811,782	$ -

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.

Service Fees Receivable and Other Receivables

The carrying amount reported is recorded net of allowance for doubtful accounts and approximates its fair value.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Contributions Receivable

Contributions receivable are shown net of allowance for uncollectible amounts and the value is determined by discounting the expected future cash flows by a risk-adjusted rate of return and approximates fair value.

Accounts Payable and Accrued Expenses

The carrying amount of accounts payable and accrued expenses approximates its fair value.

Long-Term Debt and Long-Term Forgivable Loan

The carrying value of the long-term debt and long-term forgivable loan is presumed to approximate the fair value.

4. INVESTMENTS

Investments consist of the following at December 31, 2014 and 2013:

	2014		
	Cost	Market Value	Appreciation (Depreciation)
Money market funds	$ 78,389	$ 78,389	$ -
U.S. Government agencies	1,147,402	1,166,120	18,718
U.S. Treasury obligations	1,398,002	1,430,974	32,972
Corporate and foreign bonds	1,147,244	1,154,659	7,414
Domestic common stock	1,329,778	2,203,235	873,456
Foreign common stock	151,400	189,252	37,852
Real estate trusts	34,691	40,651	5,960
TOTAL INVESTMENTS	$ 5,286,906	$ 6,263,280	$ 976,373

4. INVESTMENTS (Continued)

	2013		
	Cost	Market Value	Appreciation (Depreciation)
Money market funds	$ 265,139	$ 265,139	$ -
U.S. Government agencies	966,131	986,657	20,526
U.S. Treasury obligations	1,406,829	1,432,378	25,549
Corporate and foreign bonds	859,467	854,870	(4,597)
Domestic common stock	1,391,412	2,220,892	829,480
Foreign common stock	103,457	155,487	52,030
Real estate trusts	27,451	36,045	8,594
TOTAL INVESTMENTS	$ 5,019,886	$ 5,951,468	$ 931,582

	2014	2013
Net realized gains	$ 157,230	$ 13,048
Net unrealized gains (losses)	7,638	472,209
TOTAL INVESTMENT INCOME	$ 164,868	$ 485,257

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable are unconditional promises to give and are as follows at December 31:

	2014	2013
Total unconditional promises to give, receivable in less than one year	$ 62,000	$ 41,371
Less allowance for uncollectible amounts	(5,200)	(4,900)
NET UNCONDITIONAL PROMISES TO GIVE, CURRENT	$ 56,800	$ 36,471

6. LONG-TERM DEBT

Long-term debt is summarized as follows:

	2014	2013
Mortgage note payable to the Illinois Housing Development Authority (IHDA). The note is non-interest-bearing and requires monthly payments of $1,980, with final payment due on May 1, 2035. The loan is secured by the property located in Lockport, Illinois, and by a security interest in certain personal property.	$ 720,720	$ 745,857
Bond payable to the Illinois Finance Authority with credit issued through Charter One Bank. The bond is an $8,500,000 adjustable rate demand revenue bond, Series 2009, issued on October 19, 2009. The bond carries interest at a variable rate and requires annual payments through November 1, 2031. The bond matures on July 1, 2032. The bond is secured by an interest in all properties. The bond includes various covenants, which have been met as of December 31, 2013.	-	7,900,000
Bond payable to the Illinois Finance Authority with credit issued through North Shore Community Bank & Trust Co. The bond is a $16,000,000 adjustable rate demand revenue bond, Series 2014, issued on April 1, 2014. The bond carries interest at a variable rate and requires quarterly payments through the maturity date. The bond matures on March 1, 2044. The bond is secured by an interest in all properties. The bond includes various covenants, which have been met as of December 31, 2014.	15,920,000	-
Total	16,640,720	8,645,857
Less current portion	369,760	193,760
LONG-TERM PORTION	$ 16,270,960	$ 8,452,097

6. LONG-TERM DEBT

Future maturities of long-term debt is as follows:

2015	$ 369,760
2016	555,760
2017	555,760
2018	555,760
2019	555,760
Thereafter	14,047,920
TOTAL	$16,640,720

In April 2014, the Organization paid off its Series 2009 bond in the amount of $7,908,587. The Organization simultaneously entered into a new Series 2014 bond in the amount of $16,000,000. The new bond proceeds were used to pay off the Series 2009 bond and were used to finance construction at a new Village 14-home site, Roosevelt Square Village, and for construction at its Chicago Village. The Series 2014 bond has a duration of 30 years.

7. FORGIVABLE MORTGAGE

In December 2011, the Organization acquired certain assets and assumed certain liabilities under a transfer of assets and an assumption of liabilities agreement with Boys Town Chicago, Inc., Father Flanagan's Boys' Home, an independent nonprofit organization. The Organization assumed a ground lease agreement for property with the Catholic Bishop of Chicago that expires on August 30, 2036 (Note 11).

The Organization also received a building situated on the land of the previously noted ground lease and other miscellaneous equipment. The building was recorded at its appraisal value at $330,000 at the closing date in 2011. The building has an attached forgivable loan with the City of Chicago, subject to annual forgiveness, as long as the Organization continues to operate the facility as a respite home for at-risk youth. The forgivable loan is subject to annual forgiveness of $9,706, expiring on August 31, 2046. The forgivable loan had a balance of $307,353 and $317,059 at December 31, 2014 and 2013, respectively.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Organization is exposed to certain risks relating to its ongoing activities. The primary risk managed by using derivative instruments is interest rate risk. An interest rate swap is entered into to manage interest rate risk associated with the Organization's fixed-rate borrowings.

To protect the Organization from adverse and unexpected interest rate fluctuations, the Organization entered into an interest rate swap to convert its bond payable, which is based on a variable interest rate, to fixed-rate debt.

8. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Organizations are required under accounting principles generally accepted in the United States of America to recognize all derivative instruments as either assets or liabilities at fair value in their statements of financial position. This derivative instrument is reported at its fair value.

In March 2014, the Organization paid off its interest rate swap which aligned with the Series 2009 bond (see Note 6) in the amount of $804,000. The Organization simultaneously entered into a new interest rate swap agreement in conjunction with the Series 2014 bond issuance. The 2014 swap was issued to pay off the 2009 interest rate swap so it had a fair value of $804,000 at inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year, which, because of changes in forecasted levels of the London Interbank Offered Rate, resulted in reporting a liability for the fair value of the future net receipts forecasted under the swaps.

The initial notional amount of the 2014 swap agreement is $13,000,000 with a fixed interest rate of 2.62% for a period of seven years. The remaining $3,000,000 of the Series 2014 bond has a variable interest rate initially set at 1.80% and is pegged to the London Interbank Offered Rate for a period of seven years.

The derivative financial instrument is recorded at fair value with subsequent changes in fair value included in other revenue and expenses. A summary of the borrowings, swap balance, and related income or loss is as follows:

Year Ended	Notional Amount	Liability	Income (Loss)	Classification
December 31, 2014	$ 13,000,000	$ 1,026,753	$ (214,971)	Other item - change in interest rate swap liability
December 31, 2013	$ 7,892,284	$ 811,782	$ 352,077	Other item - change in interest rate swap liability

The liability is classified as current, at the year ended December 31, 2013, since management settled the swap agreement during 2014. The fixed-rate in effect for purposes of the swap was 2.62% and 3.35% at December 31, 2014 and 2013.

9. EMPLOYEE RETIREMENT PLAN

The Organization maintains a defined contribution plan under Section 403(b) of the IRC covering substantially all employees. This plan is available to all employees who have attained the age of 21 and have completed at least 1,000 hours of service. The plan includes two tiers, whereby the Organization is obligated to make contributions to the plan either at a rate of 4% or 7% of eligible salaries per year, depending on when the employee was hired. Participants in the plan become fully vested upon completion of five years of service. The Organization funds retirement costs monthly as incurred. Contributions to the plan totaled $127,082 and $109,614 for the years ended December 31, 2014 and 2013, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following programs, purposes, and periods as directed by the donors as of December 31:

	2014	2013
Amli Family Events	$ 3,831	$ -
Chicago Village Capital Projects (New Homes)	100,000	100,000
Chicago Village Wellness program	167,754	167,754
Christmas Gifts	1,430	1,430
Educational Program	128,434	18,769
Field Activities	1,604	1,604
Graduate Greatness Program	5,207	5,207
Jean Lonsdale Education Fund	9,850	9,814
Lockport Program	3,487	3,640
Lockport Scholarship Fund	425	425
Parent Training Program	30,631	34,499
Photo Club	700	-
Pride Training	2,710	2,786
Private School Education	1	1
S Three Raffle - Education	7,010	-
Step Program	13,994	13,994
Strategic Plan	5,000	5,000
Tennis	2,265	2,265
Village Garden	30,374	36,184
Young Executives Board	250	250
TOTAL TEMPORARILY RESTRICTED NET ASSETS	$ 514,957	$ 403,622

11. LEASE COMMITMENTS

The Organization leases office space under a noncancelable operating lease that expires during 2018. The office lease requires the Organization to pay certain operating costs such as maintenance and insurance. The Organization also assumed a ground lease agreement through the acquisition discussed in Note 7. The ground lease requires an annual rental payment for the use of the land by the Organization of $10, expiring at August 30, 2036. The Organization has recorded a discounted receivable and contribution for the difference in the fair market lease value of the land and the payments to be made over the life of the lease.

Rental expense under these operating leases totaled $110,314 and $118,381 for the years ended December 31, 2014 and 2013, respectively.

11. LEASE COMMITMENTS (Continued)

Future minimum rental commitments for all noncancelable leases in effect as of December 31 are as follows:

2015	$ 101,926
2016	104,098
2017	106,270
2018	99,395
Thereafter	190
TOTAL	$ 411,879

12. CASH FLOW DISCLOSURES

Cash paid for interest was $534,407 and $416,518 during the years ended December 31, 2014 and 2013, respectively.

The Organization received donated property and equipment totaling $289,611 and $1,570,000 during the years ended December 31, 2014 and 2013, respectively.

As discussed in Note 8, the Organization's 2009 interest rate swap balance of $804,000 was paid through the issuance of the Organization's 2014 interest rate swap.

13. CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of information about current vulnerabilities due to certain concentrations. These matters include the following:

Concentration of Credit Risk

At times during the years ended December 31, 2014 and 2013, the Organization held cash in excess of federally insured limits.

Concentration of Revenue

Approximately 69% of total support and revenues in each of the years ended December 31, 2014 and 2013 were received from the State of Illinois Department of Children and Family Services (IDCFS). Receivables due from IDCFS totaled $235,674 and $90,805 as of December 31, 2014 and 2013, respectively.

For the year ended December 31, 2014, one donor accounted for approximately 79% of total contribution revenue.

For the year ended December 31, 2013, two donors accounted for approximately 38% of total contribution revenue.

14. CONTINGENCIES

Litigation

The Organization has been named in two lawsuits involving employee matters. Management believes that insurance will cover potential losses in excess of their deductible of $5,000 per case. Legal counsel has advised management that the outcome and range of loss, if any, cannot be reasonably estimated at this time. Accordingly, no provisions for possible loss related to these lawsuits have been made in these financial statements. (See Subsequent Events, Note 16).

Donated Land

During 2013, the Organization received a donation of land from an unrelated organization valued at $1,570,000. The conveyance of the land was for the purpose of the Organization constructing a licensed foster care facility on the land. Additional requirements pertaining to the operations of the facility commence on the date construction is completed and the last unit is occupied (commencement date) and are in effect for a period of 15 years.

Letter of Credit

On October 24, 2013, the Organization's bank issued, on behalf of the Organization, an irrevocable letter of credit in the amount of $124,365, with the City of Chicago - Zoning Administrator and the City of Chicago - Comptroller. The letter of credit expired on December 24, 2014.

15. COMPLIANCE WITH GRANTOR RESTRICTIONS

Financial assistance from governmental entities in the form of grants is subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time. Management believes that any disallowance of expenditures under these grants would not be material.

16. SUBSEQUENT EVENTS

Management evaluated subsequent events through June 23, 2015, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2014, but prior to June 23, 2015 that provided additional evidence about conditions that existed at December 31, 2014, have been recognized in the financial statements for the year ended December 31, 2014. Events or transactions that provided evidence about conditions that did not exist at December 31, 2014, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2014.

16. SUBSEQUENT EVENTS (Continued)

In May 2015, the Organization settled one of the lawsuits referred to in Note 14 in the amount of $150,000. The settlement was covered by the Organization's insurance carrier. The Organization accounted for the settlement by recording a receivable for the insurance recovery and payable for the settlement payments, as well as recording associated revenue and expenses. The amounts have been recorded as of December 31, 2014 since the settlement relates to an event that occurred prior to December 31, 2014, and included within the subsequent event footnote due to the settlement transaction date falling between the date of the fiscal year-end and date the financial statements were available to be issued.