SOS CHILDREN'S VILLAGES
ILLINOIS, INC.
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2011 and 2010

CliftonLarsonAllen

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Independent Auditor's Report

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

We have audited the accompanying statements of financial position of SOS Children’s Villages Illinois, Inc. (the “Organization”) as of December 31, 2011 and 2010, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2012 on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 7, 2012

CliftonLarsonAllen

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of SOS Children's Villages, Inc. (the "Organization") as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated May 7, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 7, 2012

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash	$ 1,691,621	$ 2,286,315
Investments	1,817,119	996,376
Investments - board designated	3,239,648	3,102,512
Government service fees receivable	101,254	58,410
Contributions receivable, net	16,500	34,000
Other receivables, net	75,540	23,436
Prepaid expenses and other assets	24,977	41,614
Total current assets	6,966,659	6,542,663
PROPERTY AND EQUIPMENT		
Land	4,959,954	4,844,954
Building and improvements	17,586,593	17,031,817
Furniture and equipment	2,351,633	2,144,895
Vehicles	812,257	812,637
Construction in progress	25,596	-
Total, at cost	25,736,033	24,834,303
Less accumulated depreciation	7,525,163	6,540,037
Net property and equipment	18,210,870	18,294,266
OTHER ASSETS		
Deposits	61,876	56,611
Bond closing costs, net of amortization	119,180	123,812
Total other assets	181,056	180,423
TOTAL ASSETS	$ 25,358,585	$ 25,017,352

LIABILITIES AND NET ASSETS

		2011		2010
CURRENT LIABILITIES				
Accounts payable	$	166,532	$	117,271
Accrued expenses		392,737		326,345
Current portion of long-term debt		178,760		168,760
Current portion of forgivable loan		38,620		-
Total current liabilities		776,649		612,376
LONG-TERM LIABILITIES				
Long-term debt, net of current portion		8,830,220		9,008,980
Long-term forgivable loan, net of current portion		1,300,191		-
Obligation under interest rate swap		1,199,366		835,418
Total long-term liabilities		11,329,777		9,844,398
Total liabilities		12,106,426		10,456,774
NET ASSETS				
Unrestricted:				
Undesignated		9,834,798		11,379,283
Board designated		3,239,648		3,102,512
Total unrestricted		13,074,446		14,481,795
Temporarily restricted		177,713		78,783
Total net assets		13,252,159		14,560,578
TOTAL LIABILITIES AND NET ASSETS	$	25,358,585	$	25,017,352

The accompanying notes are an integral part of the financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Government fee for service contracts:			
Illinois Department of Children and Family Services (DCFS)	$ 6,844,205	$ -	$ 6,844,205
Program service fees	10,232	-	10,232
Contributions	424,356	121,525	545,881
Special events revenue, net of $128,894 of related expenses	326,287	-	326,287
In-kind donations	222,534	-	222,534
Interest income	107,393	-	107,393
Investment income	51,654	-	51,654
Other income	90,678	-	90,678
Net assets released from restrictions	22,595	(22,595)	-
Total support and revenues	8,099,934	98,930	8,198,864
EXPENSES			
Program services	6,934,906	-	6,934,906
Management and general	872,628	-	872,628
Fundraising	326,990	-	326,990
Total expenses	8,134,524	-	8,134,524
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	(34,590)	98,930	64,340
OTHER ITEMS			
Change in interest rate swap liability	(363,948)	-	(363,948)
Unrealized loss on acquisition of property	(1,008,811)	-	(1,008,811)
Total other items	(1,372,759)	-	(1,372,759)
CHANGE IN NET ASSETS	$ (1,407,349)	$ 98,930	$ (1,308,419)

The accompanying notes are an integral part of the financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Government fee for service contracts:			
Illinois Department of Children and Family Services (DCFS)	$ 6,578,407	$ -	$ 6,578,407
Program service fees	16,904	-	16,904
Contributions	475,472	31,397	506,869
Special events revenue, net of $59,549 of related expenses	76,206	-	76,206
In-kind donations	28,249	-	28,249
Interest income	35,939	-	35,939
Investment income	77,004	-	77,004
Other income	91,281	-	91,281
Net assets released from restrictions	25,565	(25,565)	-
Total support and revenues	7,405,027	5,832	7,410,859
EXPENSES			
Program services	6,408,800	-	6,408,800
Management and general	964,874	-	964,874
Fundraising	138,321	-	138,321
Total expenses	7,511,995	-	7,511,995
CHANGE IN NET ASSETS BEFORE OTHER ITEM	(106,968)	5,832	(101,136)
Change in interest rate swap liability	(255,085)	-	(255,085)
CHANGE IN NET ASSETS	$ (362,053)	$ 5,832	$ (356,221)

The accompanying notes are an integral part of the financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENTS OF CHANGES IN NET ASSETS
December 31, 2011 and 2010

	Total	Unrestricted	Temporarily Restricted
NET ASSETS, DECEMBER 31, 2009	$ 14,916,799	$ 14,843,848	$ 72,951
Change in net assets	(356,221)	(362,053)	5,832
NET ASSETS, DECEMBER 31, 2010	14,560,578	14,481,795	78,783
Change in net assets	(1,308,419)	(1,407,349)	98,930
NET ASSETS, DECEMBER 31, 2011	$ 13,252,159	$ 13,074,446	$ 177,713

The accompanying notes are an integral part of the financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	Program Services	Management and General	Fundraising	Total Expenses
SALARIES AND RELATED EXPENSES				
Salaries	$ 2,582,064	$ 280,506	$ 139,447	$ 3,002,017
Fringe benefits and related taxes	817,727	88,263	43,853	949,843
Total salaries and related expenses	3,399,791	368,769	183,300	3,951,860
OTHER EXPENSES				
Contract personnel	294,543	53,270	1,203	349,016
Professional services	106,829	131,498	5,939	244,266
Staff recruitment	5,342	10,183	2,273	17,798
Staff development	6,969	13,285	2,966	23,220
Staff travel	15,347	29,260	6,533	51,140
Home budget expense	582,265	-	-	582,265
Program expense/supplies	127,820	1,765	-	129,585
Program services	13,558	187	-	13,745
Vehicles	265,494	1,966	1,005	268,465
Utilities	176,380	1,428	1,356	179,164
Building and grounds	331,217	48,749	21,405	401,371
Insurance	51,325	6,977	768	59,070
Other office expenses	174,408	76,277	19,740	270,425
Fundraising/public relations	-	-	65,049	65,049
In-kind	-	42,035	4,484	46,519
Miscellaneous	35	2,006	-	2,041
Interest expense	420,316	12,999	-	433,315
Uncollectible pledge expense	-	42,743	-	42,743
Total other expenses	2,571,848	474,628	132,721	3,179,197
Total expenses before depreciation and amortization	5,971,639	843,397	316,021	7,131,057
Depreciation and amortization	963,267	29,231	10,969	1,003,467
TOTAL EXPENSES	$ 6,934,906	$ 872,628	$ 326,990	$ 8,134,524

The accompanying notes are an integral part of the financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010

	Program Services	Management and General	Fundraising	Total Expenses
SALARIES AND RELATED EXPENSES				
Salaries	$ 2,440,346	$ 368,991	$ 59,547	$ 2,868,884
Fringe benefits and related taxes	720,288	117,942	17,833	856,063
Total salaries and related expenses	3,160,634	486,933	77,380	3,724,947
OTHER EXPENSES				
Contract personnel	185,376	300	11,001	196,677
Professional services	85,030	72,136	12,004	169,170
Staff recruitment	4,140	5,618	99	9,857
Staff development	8,236	11,176	197	19,609
Staff travel	27,146	36,841	646	64,633
Home budget expense	568,908	-	-	568,908
Program expense/supplies	112,867	2,303	-	115,170
Program services	20,982	428	-	21,410
Vehicles	199,832	656	1,064	201,552
Utilities	185,794	3,704	631	190,129
Building and grounds	279,895	63,027	10,971	353,893
Insurance	50,413	6,598	377	57,388
Other office expenses	173,548	70,139	6,758	250,445
Fundraising/public relations	-	15,525	8,115	23,640
Board expenses	-	329	-	329
In-kind	-	69,739	3,510	73,249
Miscellaneous	12	1,188	37	1,237
Interest expense	395,000	38,216	-	433,216
Uncollectible pledge expense	-	45,272	-	45,272
Total other expenses	2,297,179	443,195	55,410	2,795,784
Total expenses before depreciation and amortization	5,457,813	930,128	132,790	6,520,731
Depreciation and amortization	950,987	34,746	5,531	991,264
TOTAL EXPENSES	$ 6,408,800	$ 964,874	$ 138,321	$ 7,511,995

The accompanying notes are an integral part of the financial statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,308,419)	$ (356,221)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,003,467	991,264
Change in interest rate swap liability	363,948	255,085
Unrealized loss on acquisition of property	1,008,811	-
Change in discount on receivables	9,706	-
Allowance for uncollectible pledges	42,743	45,272
Loss on sale of property and equipment, net	2,419	317
Donated property and equipment	(155,899)	-
Donated use of land	(29,822)	-
Unrealized gain on investments, net	(57,415)	(81,585)
Realized loss on investments, net	5,761	4,581
Effects of changes in operating assets and liabilities:		
Cash restricted for investment in property	-	209,633
Receivables	(100,075)	148,069
Prepaid expenses and other assets	11,372	(38,256)
Accounts payable	49,261	23,682
Accrued expenses	66,392	3,537
Net cash provided by operating activities	912,250	1,205,378
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(432,359)	(669,131)
Proceeds from sale of property and equipment	400	7,500
Purchases of investments	(3,052,642)	(7,841,553)
Proceeds from sale of investments	2,146,417	3,819,669
Net cash used in investing activities	(1,338,184)	(4,683,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(168,760)	(163,760)
NET DECREASE IN CASH	(594,694)	(3,641,897)
CASH, BEGINNING OF YEAR	2,286,315	5,928,212
CASH, END OF YEAR	$ 1,691,621	$ 2,286,315

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SOS Children's Villages Illinois, Inc. (the "Organization") is a not-for-profit corporation incorporated in the State of Illinois on November 3, 1988. The Organization has two children's villages located in Illinois. The Lockport Village was the first Village in Illinois and was formed to provide foster care for children. This 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 SOS foster parent.

On August 26, 2004, the Organization opened the first Urban Foster Care Village in the entire world. The new Village consists of 12 single-family homes and four duplexes, which house foster children and professional foster parents. The Village also includes 24 homes for moderate-income families through the Chicago Department of Housing's New Homes for Chicago. The centerpiece of the 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 center is open to the entire Auburn-Gresham community.

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

The Organization's fiscal year ends on December 31. Significant accounting policies followed by the Organization are presented below.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

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

Financial Statement Presentation

Financial statement presentation follows GAAP for not-for-profit organizations. GAAP requires 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. The Organization has no permanently restricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments consist of money market fund, 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, 2011 and 2010.

Property and Equipment

Purchased property and equipment are stated at cost. Property and equipment purchases in excess of $500 per unit are capitalized. Donated property and equipment are stated at fair market value at the date of the donation. The Organization depreciates its property and equipment using the straight-line method over the estimated useful lives of the assets, which are as follows:

Buildings and improvements	10 - 30 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

Bond Closing Costs

The Organization has incurred various bond closing costs from the issuance of the bond discussed in Note 7. These costs have been deferred and are being amortized over the life of the bond at a rate of $4,449 per year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Interest Rate Swap

During 2008, the Organization entered into an interest rate swap to manage risks related to interest rate movements. The interest rate swap contract is designated and qualifies as a cash flow hedge and is reported at fair value. The gains or losses on the hedge are included as a component of changes in net assets. The Organization documents its risk management strategy and hedge effectiveness at the inception of and during the term of the hedge. 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 GAAP for not-for-profit 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Donations of services are recorded if they create or enhance a non-financial asset or are specialized skills that would be purchased if they were not donated. For the years ended December 31, 2011 and 2010, the Organization received $46,519 and $28,249, respectively, of legal, writing/public relations and other miscellaneous services and materials. These services were recorded as expenses in the financial statements. The Organization received $155,899 and $0 in capitalized in-kind donations for the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2011, the Organization also received a ground lease with an annual rental payment for the use of the land by the Organization of $10, expiring at August 30, 2036. The Organization 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. The fair market lease value of the land over the lease term is $29,822 with a discount of $9,706, netting to $20,116. The Organization will record the in-kind expense for the use of the land, $1,209 annually, for the duration of the lease term. See Note 3.

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.

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, 2011 and 2010.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

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 2008, 2009, and 2010 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

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.

NOTE 3 - PROPERTY ACQUISITION

During the year ended December 31, 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 non-profit organization. The Organization assumed a ground lease agreement for property (see Note 1 - In-Kind Donations) with the Catholic Bishop of Chicago that expires on August 30, 2036. Under the ground lease agreement, the use of the land is restricted for the purpose of providing a respite home, which will provide shelter, assessment and referral for youths, parent training and other social services for youth and families. The Organization also received a building situated on the land of the previously noted ground lease and other miscellaneous equipment. The building was appraised at the closing date with a fair market value of $330,000. The building has an attached forgivable loan with the City of Chicago, valued at $1,338,811 at the closing date. The forgivable loan is subject to annual forgiveness, expiring on August 31, 2046, as long as the Organization continues to operate the facility as a respite home for at-risk youth. The Organization recorded a loss on this acquisition of property within their 2011 Statement of Activities in the amount of $1,008,811. The Organization is working with the City of Chicago in an attempt to reduce the forgivable loan to the current fair market value of the property acquired.

NOTE 4 - 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 minimizing 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:

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments

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.

Building

The building acquired during the year ended December 31, 2011, in conjunction with a transfer of assets and assumption of liabilities agreement (see Note 3), is recorded at fair value based on an independent appraisal using quoted market prices of similar properties. The building is classified within Level 2 of the valuation hierarchy and is reported as property and equipment on the 2011 Statement of Financial Position.

Interest Rate Swap

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.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2011 and 2010 are as follows:

December 31, 2011	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	$ 185,166	$ -	$ 185,166	$ -
U.S. government agencies	1,154,009	-	1,154,009	-
U.S. treasury obligations	1,492,596	-	1,492,596	-
Corporate bonds	651,100	-	651,100	-
Domestic common stock	1,490,744	1,490,744	-	-
Foreign common stock	54,818	54,818	-	-
Real estate trusts	28,334	28,334	-	-
Total investments	$ 5,056,767	$ 1,573,896	$ 3,482,871	$ -
Building	$ 330,000	$ -	$ 330,000	$ -
Interest rate swap	$ 1,199,366	$ -	$ 1,199,366	$ -

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

December 31, 2010	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	$ 193,052	$ -	$ 193,052	$ -
U.S. government agencies	874,951	-	874,951	-
U.S. treasury obligations	1,203,752	-	1,203,752	-
Corporate bonds	291,962	-	291,962	-
Domestic common stock	1,456,062	1,456,062	-	-
Foreign common stock	50,085	50,085	-	-
Real estate trusts	29,024	29,024	-	-
Total investments	$ 4,098,888	$ 1,535,171	$ 2,563,717	$ -
Interest rate swap	$ 835,418	$ -	$ 835,418	$ -

NOTE 5 - INVESTMENTS

Investments consist of the following at December 31, 2011 and 2010:

December 31, 2011	Cost	Market Value	Appreciation (Depreciation)
Money market funds	$ 185,166	$ 185,166	$ -
U.S. government agencies	1,136,550	1,154,009	17,459
U.S. treasury obligations	1,435,804	1,492,596	56,792
Corporate and foreign bonds	641,308	651,100	9,792
Domestic common stock	1,372,208	1,490,744	118,536
Foreign common stock	44,864	54,818	9,954
Real estate trusts	27,451	28,334	883
Total investments	$ 4,843,351	$ 5,056,767	$ 213,416

NOTE 5 - INVESTMENTS (continued)

December 31, 2010	Cost	Market Value	Appreciation (Depreciation)
Money market funds	$ 193,052	$ 193,052	$ -
U.S. government agencies	885,565	874,951	(10,614)
U.S. treasury obligations	1,200,053	1,203,752	3,699
Corporate and foreign bonds	299,654	291,962	(7,692)
Domestic common stock	1,337,893	1,456,062	118,169
Foreign common stock	44,864	50,085	5,221
Real estate trusts	27,451	29,024	1,573
Total investments	$ 3,988,532	$ 4,098,888	$ 110,356

Investment income is comprised as follows:

	2011	2010
Net realized loss	$ (5,761)	$ (4,581)
Net unrealized gains	57,415	81,585
Total investment income	$ 51,654	$ 77,004

NOTE 6 - CONTRIBUTIONS RECEIVABLE

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

	2011	2010
Total unconditional promises to give, receivable in less than one year	$ 17,500	$ 40,000
Less allowance for uncollectible amounts	(1,000)	(6,000)
Net unconditional promises to give, current	$ 16,500	$ 34,000

NOTE 7 - LONG-TERM DEBT

Long-term debt is summarized as follows:

	2011	2010
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.	$ 793,980	$ 817,740
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, 2011 and 2010.	8,215,000	8,360,000
Total	9,008,980	9,177,740
Less current portion	178,760	168,760
Long-term portion	$ 8,830,220	$ 9,008,980

Future maturities of long-term debt are as follows:

2012	$ 178,760
2013	183,760
2014	193,760
2015	203,760
2016	213,760
Thereafter	8,035,180
Total	$ 9,008,980

NOTE 7 - LONG-TERM DEBT (continued)

During 2009, the bank, which held the letter of credit on the Organization's $8,500,000 adjustable rate demand revenue bond, Series 2007, was downgraded by S&P. This resulted in the bonds being tendered and held by the bank, as they could not be remarketed. As a result of this, the Organization was required to pay interest on these bonds at the bank's prime rate of 3.25%, plus the fixed rate of 3.525% required by the interest rate swap (see below). On October 15, 2009, the Organization exchanged its $8,500,000 Series 2007 bond for a Series 2009 bond of the same amount. This transaction resulted in the Organization expensing approximately $247,000 related to closing costs on the Series 2007 bond. In addition to this, the Organization capitalized approximately $130,000 related to closing costs on the Series 2009 bond.

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. The agreement was amended on September 28, 2009, to align with the Series 2009 bond issue. This derivative instrument has been designated as a cash flow hedging instrument and is reported at its fair value. The swap was issued at market terms so that it had no fair value 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 LIBOR rate, resulted in reporting a liability for the fair value of the future net receipts forecasted under the swaps. The liability is classified as non-current since management does not intend to settle it during 2012. Since the critical terms of the swap and the bond payable are the same, the swap is assumed to be completely effective as a hedge, and accordingly, the adjustment to the swap's carrying amount is reported as another change in net assets. In 2011 and 2010, the Organization recognized a loss of $363,948 and $255,085, respectively, related to the change in the fair value of the swap. The fixed rate in effect for purposes of the swap was 3.35% at December 31, 2011 and 2010.

NOTE 8 - 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 $96,075 and $99,129 for the years ended December 31, 2011 and 2010, respectively.

NOTE 9 - 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:

	2011	2010
Step program	$ 14,117	$ 14,117
Bowling for Foster Kids	7,747	6,134
Lockport program	5,322	1,000
Lockport Scholarship Fund	425	425
Private School Education	1	1,933
Parent training program	14,250	14,250
Chicago Village new homes	100,000	-
Pride training	2,786	2,786
Tennis	2,150	2,150
Educational program	18,567	23,284
Field activities	1,604	-
Village garden	577	-
Young Executives Board	250	-
Jean Lonsdale Education Fund	9,917	12,704
Total temporarily restricted net assets	$ 177,713	$ 78,783

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes specified by the funding agencies and by the expiration of time restrictions:

	2011	2010
Women's sports program	$ -	$ 2,796
Village garden	389	-
Field activities	2,996	-
Pride training	-	160
Educational program	11,717	6,413
Cargill	-	2,352
Bowling for Foster Kids	2,202	2,062
Lockport program	505	5,825
Private School Education	1,957	2,957
Jean Lonsdale Education Fund	2,829	3,000
Total temporarily restricted net assets released	$ 22,595	$ 25,565

NOTE 11 - LEASE COMMITMENTS

The Organization leases office space under a non-cancelable 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 3. The ground lease agreement expires on August 30, 2036. Rental expense under these operating leases totaled $112,239 and $109,303 for the years ended December 31, 2011 and 2010, respectively.

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

2012	$ 96,706
2013	98,878
2014	101,050
2015	101,926
2016	104,098
Thereafter	205,845
Total	$ 708,503

NOTE 12 - CASH FLOW DISCLOSURES

Cash paid for interest was $433,316 and $433,216 during the years ended December 31, 2011 and 2010, respectively.

During 2011, the Organization received donated property and equipment totaling $155,899. Through an acquisition that occurred at December 30, 2011, the Organization received donated use of land through a ground lease agreement, and a building with an attached forgivable loan. See Note 3.

During 2010, the Organization traded in a vehicle and received a $4,822 reduction in the purchase price of a new vehicle.

During 2010, the Organization removed $29,562 from construction in progress and reclassified this amount as a receivable. This amount is included in other receivables in the Statement of Financial Position.

NOTE 13 - CONCENTRATIONS

GAAP requires disclosure of information about current vulnerabilities due to certain concentrations. These matters include the following:

Concentration of Revenue

Approximately 83% and 89% of total support and revenues in the years ended December 31, 2011 and 2010, respectively, were received from the State of Illinois Department of Children and Family Services (IDCFS). Receivables due from IDCFS totaled $101,254 and $58,410 as of December 31, 2011 and 2010, respectively.

For the year ended December 31, 2011, three donors accounted for approximately 55% of total contribution revenue.

For the year ended December 31, 2010, two donors accounted for approximately 44% of total contribution revenue.

NOTE 14 - CONTINGENCIES

During 2003, the Organization received a contribution from the City of Chicago through the New Homes for Chicago Program. This contribution included a donation of land and funds restricted for construction of homes to be operated as foster care homes for 40 years. During those 40 years, the Organization cannot transfer ownership or property rights or the operating license issued by the Department of Children and Family Services (DCFS), concerning the foster homes or property, without the prior written consent of the City of Chicago. Upon the event of default by the Organization under the redevelopment agreement, or the operating agreement with the City of Chicago, the City shall have the right to convey the property to another entity.

During 2011, the Organization received a contribution that included a donation of land from the City of Chicago through the Group Foster Homes Project. Under the agreement, the Organization is required to construct up to five group foster homes. The Organization will also receive funding restricted for construction of homes to be operated as foster care homes for 40 years. During those 40 years, the Organization cannot transfer ownership or property rights or the operating license issued by the Department of Children and Family Services (DCFS), concerning the foster homes or property, without the prior written consent of the City of Chicago. Upon the event of default by the Organization, under the redevelopment agreement or the operating agreement with the City of Chicago, the City shall have the right to convey the property to another entity. At this time it appears doubtful that the City of Chicago will proceed with plans to develop the community surrounding the donated land. Therefore, the Organization is uncertain if they will continue with the project and build the required foster homes. Due to this uncertainty, the Organization has chosen not to record the amount of restricted funding that they would receive if they choose to build on this land. If the Organization chooses not to build on this land, they will be required to convey the property back to the City of Chicago, or another entity. The value of the land and related construction in process was $30,000 and $12,166, respectively at December 31, 2011.

NOTE 14 - CONTINGENCIES (continued)

The Organization has been named in two separate 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 two lawsuits have been made in these financial statements.

NOTE 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.

NOTE 16 - RECLASSIFICATIONS

Certain reclassifications have been made in the December 31, 2010 financial statements in order to conform with the presentation of the December 31, 2011 financial statements. These included a $51,022 reclassification from unrestricted net assets to temporarily restricted net assets to properly account for a temporarily restricted contribution received. Such reclassifications had no effect on total net assets or the total change in net assets as previously reported.

NOTE 17 - SUBSEQUENT EVENTS

Management evaluated subsequent events through May 7, 2012, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior to May 7, 2012 that provided additional evidence about conditions that existed at December 31, 2011, have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011, 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, 2011.