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

FINANCIAL STATEMENTS
December 31, 2012 and 2011

CliftonLarsonAllen

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INDEPENDENT AUDITORS' 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 statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

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 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 auditors' 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 Organization'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 Organization'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.

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

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, 2012 and 2011, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated May 22, 2013, 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 22, 2013

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of SOS Children's Villages Illinois, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency that we communicated to management in a separate letter dated May 22, 2013, addressing deficiencies in internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

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*.

Purpose of this Report

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 22, 2013

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash	$ 1,954,353	$ 1,691,621
Investments	1,826,103	1,817,119
Investments - board designated	3,524,660	3,239,648
Government service fees receivable	322,397	101,254
Contributions receivable, net	7,789	16,500
Other receivables, net	43,572	75,540
Prepaid expenses and other assets	52,488	24,977
Total current assets	7,731,362	6,966,659
PROPERTY AND EQUIPMENT		
Land	4,929,954	4,959,954
Building and improvements	17,776,201	17,586,593
Furniture and equipment	2,522,926	2,351,633
Vehicles	857,826	812,257
Construction in progress	2,045	25,596
Total, at cost	26,088,952	25,736,033
Less accumulated depreciation	8,491,310	7,525,163
Net property and equipment	17,597,642	18,210,870
OTHER ASSETS		
Deposits	60,530	61,876
Bond closing costs, net of amortization	114,548	119,180
Total other assets	175,078	181,056
TOTAL ASSETS	$ 25,504,082	$ 25,358,585

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable	$ 103,306	$ 166,532
Accrued expenses	445,135	392,737
Current portion of long-term debt	183,760	178,760
Current portion of forgivable loan	9,706	38,620
Total current liabilities	741,907	776,649
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	8,646,460	8,830,220
Long-term forgivable loan, net of current portion	320,294	1,300,191
Obligation under interest rate swap	1,163,859	1,199,366
Total long-term liabilities	10,130,613	11,329,777
Total liabilities	10,872,520	12,106,426
NET ASSETS		
Unrestricted:		
Undesignated	10,808,631	9,834,798
Board designated	3,524,660	3,239,648
Total unrestricted	14,333,291	13,074,446
Temporarily restricted	298,271	177,713
Total net assets	14,631,562	13,252,159
TOTAL LIABILITIES AND NET ASSETS	$ 25,504,082	$ 25,358,585

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

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Government fee for service contracts:			
Illinois Department of Children and Family Services (DCFS)	$ 8,201,695	$ -	$ 8,201,695
Runaway and Homeless Youth	169,903	-	169,903
Program service fees	3,114	-	3,114
Contributions	313,398	170,444	483,842
Special events revenue, net of $240,921 of related expenses	412,016	-	412,016
In-kind donations	20,781	-	20,781
Interest income	119,020	-	119,020
Investment income	159,962	-	159,962
Other income	70,142	-	70,142
Net assets released from restrictions	49,886	(49,886)	-
Total support and revenues	9,519,917	120,558	9,640,475
EXPENSES			
Program services	7,902,248	-	7,902,248
Management and general	1,107,621	-	1,107,621
Fundraising	295,521	-	295,521
Total expenses	9,305,390	-	9,305,390
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	214,527	120,558	335,085
OTHER ITEMS			
Change in interest rate swap liability	35,507	-	35,507
Reduction in the value of the forgivable loan	1,008,811	-	1,008,811
Total other items	1,044,318	-	1,044,318
CHANGE IN NET ASSETS	$ 1,258,845	$ 120,558	$ 1,379,403

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.
STATEMENTS OF CHANGES IN NET ASSETS
December 31, 2012 and 2011

	Total	Unrestricted	Temporarily Restricted
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
Change in net assets	1,379,403	1,258,845	120,558
NET ASSETS, DECEMBER 31, 2012	$ 14,631,562	$ 14,333,291	$ 298,271

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, 2012

	Program Services	Management and General	Fundraising	Total Expenses
SALARIES AND RELATED EXPENSES				
Salaries	$ 3,141,609	$ 410,631	$ 145,726	$ 3,697,966
Fringe benefits and related taxes	884,692	117,107	41,570	1,043,369
Total salaries and related expenses	4,026,301	527,738	187,296	4,741,335
OTHER EXPENSES				
Contract personnel	462,064	82,031	725	544,820
Professional services	68,325	159,094	2,896	230,315
Staff recruitment	6,015	12,559	1,219	19,793
Staff development	10,488	21,899	2,125	34,512
Staff travel	18,402	38,424	3,728	60,554
Home budget expense	679,386	-	-	679,386
Program expense/supplies	72,764	17	-	72,781
Program services	72,560	16	-	72,576
Vehicles	278,449	1,699	1,639	281,787
Utilities	173,121	2,513	902	176,536
Building and grounds	329,748	58,375	20,284	408,407
Insurance	50,686	9,859	4,857	65,402
Other office expenses	227,102	78,919	15,619	321,640
Fundraising/public relations	-	645	43,865	44,510
In-kind	-	19,150	281	19,431
Miscellaneous	-	3,328	-	3,328
Interest expense	414,000	12,487	-	426,487
Uncollectible pledge expense	-	46,121	-	46,121
Total other expenses	2,863,110	547,136	98,140	3,508,386
Total expenses before depreciation and amortization	6,889,411	1,074,874	285,436	8,249,721
Depreciation and amortization	1,012,837	32,747	10,085	1,055,669
TOTAL EXPENSES	$ 7,902,248	$ 1,107,621	$ 295,521	$ 9,305,390

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.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,379,403	$ (1,308,419)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,055,669	1,003,467
Change in interest rate swap liability	(35,507)	363,948
(Gain) loss on forgivable loan	(1,008,811)	1,008,811
Change in discount on receivables	(684)	9,706
Allowance for uncollectible pledges	46,121	42,743
Loss on sale of property and equipment, net	7,581	2,419
Donated property and equipment	(23,769)	(155,899)
Donated use of land	-	(29,822)
Land conveyed back to City of Chicago	79,129	-
Unrealized gain on investments, net	(170,627)	(57,415)
Realized (gain) loss on investments, net	(9,779)	5,761
Effects of changes in operating assets and liabilities:		
Receivables	(225,901)	(100,075)
Prepaid expenses and other assets	(26,165)	11,372
Accounts payable	(63,226)	49,261
Accrued expenses	52,398	66,392
Net cash provided by operating activities	1,055,832	912,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(500,750)	(432,359)
Proceeds from sale of property and equipment	-	400
Purchases of investments	(1,504,115)	(3,052,642)
Proceeds from sale of investments	1,390,525	2,146,417
Net cash used in investing activities	(614,340)	(1,338,184)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(178,760)	(168,760)
NET INCREASE (DECREASE) IN CASH	262,732	(594,694)
CASH, BEGINNING OF YEAR	1,691,621	2,286,315
CASH, END OF YEAR	$ 1,954,353	$ 1,691,621

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.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2012 and 2011.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2012 and 2011, the Organization received $19,431 and $46,519, 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 $23,769 and $155,899 in capitalized in-kind donations for the years ended December 31, 2012 and 2011, respectively. During 2012, the Organization conveyed land back to the City of Chicago that was received and recorded as a capitalized in-kind donation for the year ended December 31, 2011 in the amount of $30,000. The land was conveyed back to the City of Chicago and is included as a reduction within the total in-kind donations line item in the Statement of Activities. See Note 14.

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 $28,613 and $29,822 with a discount of $9,022 and $9,706, netting to $19,591 and $20,116, for the years ended December 31, 2012 and 2011, respectively. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2012 and 2011.

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 2009, 2010, and 2011 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

Lockport and Chicago Village

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 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES (continued)

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.

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). During the year ended December 31, 2012, the City of Chicago reduced the forgivable loan to the current fair market value of the property $330,000. The Organization reversed the prior year loss on acquisition in the current year by recording a gain for the reduction in the value of the forgivable loan within their 2012 Statement of Activities in the amount of $1,008,811. The forgivable loan has a value of $330,000 at December 31, 2012. The forgivable loan is subject to annual forgiveness of $9,706, expiring on August 31, 2046, as long as the Organization continues to operate the facility as a respite home for at-risk youth.

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:

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 Statements 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.

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2012 and 2011 are as follows:

December 31, 2012	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	$ 227,760	$ -	$ 227,760	$ -
U.S. government agencies	1,079,501	-	1,079,501	-
U.S. treasury obligations	1,398,936	1,398,936	-	-
Corporate bonds	846,804	-	846,804	-
Domestic common stock	1,636,304	1,636,304	-	-
Foreign common stock	127,071	127,071	-	-
Real estate trusts	34,387	34,387	-	-
Total investments	$ 5,350,763	$ 3,196,698	$ 2,154,065	$ -
Interest rate swap	$ 1,163,859	$ -	$ 1,163,859	$ -
December 31, 2011				
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	$ 3,066,492	$ 1,990,275	$ -
Building	$ 330,000	$ -	$ 330,000	$ -
Interest rate swap	$ 1,199,366	$ -	$ 1,199,366	$ -

NOTE 5 - INVESTMENTS

Investments consist of the following at December 31, 2012 and 2011:

December 31, 2012	Cost	Market Value	Appreciation
Money market funds	$ 227,760	$ 227,760	$ -
U.S. government agencies	1,057,179	1,079,501	22,322
U.S. treasury obligations	1,344,645	1,398,936	54,291
Corporate and foreign bonds	827,170	846,804	19,634
Domestic common stock	1,356,934	1,636,304	279,370
Foreign common stock	103,457	127,071	23,614
Real estate trusts	27,451	34,387	6,936
Total investments	$ 4,944,596	$ 5,350,763	$ 406,167
December 31, 2011			
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

Investment income is comprised as follows:

	2012	2011
Net realized gains (losses)	$ 9,779	$ (5,761)
Net unrealized gains	150,183	57,415
Total investment income	$ 159,962	$ 51,654

NOTE 6 - CONTRIBUTIONS RECEIVABLE

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

	2012	2011
Total unconditional promises to give, receivable in less than one year	$ 8,789	$ 17,500
Less allowance for uncollectible amounts	(1,000)	(1,000)
Net unconditional promises to give, current	$ 7,789	$ 16,500

NOTE 7 - LONG-TERM DEBT

Long-term debt is summarized as follows:

	2012	2011
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.	$ 770,220	$ 793,980
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, 2012 and 2011.	8,060,000	8,215,000
Total	8,830,220	9,008,980
Less current portion	183,760	178,760
Long-term portion	$ 8,646,460	$ 8,830,220

NOTE 7 - LONG-TERM DEBT (continued)

Future maturities of long-term debt are as follows:

2013	$ 183,760
2014	193,760
2015	203,760
2016	213,760
2017	223,760
Thereafter	7,811,420
Total	$ 8,830,220

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 2013. 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 2012 and 2011, the Organization recognized a gain of $35,507 and a loss of $363,948, 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, 2012 and 2011.

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 $96,698 and $96,075 for the years ended December 31, 2012 and 2011, 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:

	2012	2011
Step program	$ 14,117	$ 14,117
Bowling for Foster Kids	-	7,747
Lockport program	3,757	5,322
Lockport Scholarship Fund	425	425
Private School Education	1	1
Parent training program	34,250	14,250
Chicago Village new homes	100,000	100,000
Pride training	2,786	2,786
Tennis	2,265	2,150
Educational program	9,914	18,567
Field activities	1,604	1,604
Village garden	15,727	577
Graduate Greatness Program	3,732	-
Christmas gifts	5,757	-
Shared learning	14,075	-
Chicago Village Wellness Program	80,000	-
Young Executives Board	250	250
Jean Lonsdale Education Fund	9,611	9,917
Total temporarily restricted net assets	$ 298,271	$ 177,713

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:

	2012	2011
Graduate Greatness Program	$ 268	$ -
Village garden	11,024	389
Field activities	-	2,996
Christmas gifts	9,355	-
Educational program	8,653	11,717
Chicago Village Wellness Program	10,925	-
Bowling for Foster Kids	7,746	2,202
Lockport program	1,565	505
Private School Education	-	1,957
Jean Lonsdale Education Fund	350	2,829
Total temporarily restricted net assets released	$ 49,886	$ 22,595

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 $101,165 and $112,239 for the years ended December 31, 2012 and 2011, respectively.

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

2013	$ 108,514
2014	101,050
2015	101,926
2016	104,098
2017	106,270
Thereafter	99,575
Total	$ 621,433

NOTE 12 - CASH FLOW DISCLOSURES

Cash paid for interest was $426,487 and $433,316 during the years ended December 31, 2012 and 2011, respectively.

The Organization received donated property and equipment totaling $32,840 and $155,899 during the years ended December 31, 2012 and 2011, respectively. 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 2012, the Organization traded in a vehicle and received a $7,500 reduction in the purchase price of a new vehicle.

NOTE 13 - CONCENTRATIONS

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

Concentration of Revenue

Approximately 85% and 83% of total support and revenues in the years ended December 31, 2012 and 2011, respectively, were received from the State of Illinois Department of Children and Family Services (IDCFS). Receivables due from IDCFS totaled $322,397 and $101,254 as of December 31, 2012 and 2011, respectively.

For the year ended December 31, 2012, two donors accounted for approximately 27% of total contribution revenue.

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

NOTE 14 - CONTINGENCIES (continued)

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 was required to construct up to five group foster homes. The Organization also received funding restricted for the 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. The value of the land and related construction in process was $30,000 and $12,166, respectively, at December 31, 2011. During 2012, the Organization decided not to proceed with plans surrounding the Group Foster Homes Project and decided to convey the land back to the City of Chicago, which was valued at $30,000. The land was conveyed back to the City of Chicago because they did not proceed with plans to develop the community surrounding the donated land. The value of the related construction in process that was expensed at the time of the land conveyance to the City of Chicago was $49,129.

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 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 - SUBSEQUENT EVENTS

Management evaluated subsequent events through May 22, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to May 22, 2013 that provided additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, 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, 2012.

NOTE 16 - SUBSEQUENT EVENTS (continued)

In February 2013, the Organization received a grant in the amount of $1.9 million from the City of Chicago through the Group Foster Homes Project. Under the agreement, the Organization is required to construct and operate up to two group foster care facilities on each acquired property parcel at a specific location (seven property parcels in total).

In February 2013, the Organization also received a grant in the amount of $800,000 from the City of Chicago through the Group Foster Homes Project. Under the agreement, the Organization is required to rehabilitate buildings at a specific location on three property parcels as foster care facilities, and construct and operate multi-unit group foster care facilities at three property parcels (six property parcels in total).