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

FINANCIAL STATEMENTS
December 31, 2013 and 2012

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, 2013 and 2012, 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.

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, 2013 and 2012, and the changes in its net assets, functional expenses, 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 27, 2014, 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 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. See separate 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*.

CliftonLarsonAllen LLP

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Oak Brook, Illinois
May 27, 2014

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash	$ 2,006,123	$ 1,954,353
Investments	1,824,473	1,826,103
Investments - board-designated	4,126,995	3,524,660
Government service fees receivable	125,898	322,397
Contributions receivable, net	5,071	7,789
Other receivables, net	82,451	43,572
Prepaid expenses and other assets	78,811	52,488
Total current assets	8,249,822	7,731,362
PROPERTY AND EQUIPMENT		
Land	6,509,283	4,929,954
Building and improvements	17,840,400	17,776,201
Furniture and equipment	2,653,669	2,522,926
Vehicles	943,767	857,826
Construction in progress	157,584	2,045
Total, at cost	28,104,703	26,088,952
Less accumulated depreciation	9,462,794	8,491,310
Net property and equipment	18,641,909	17,597,642
OTHER ASSETS		
Deposits	215,781	60,530
Bond closing costs, net of amortization	110,302	114,548
Total other assets	326,083	175,078
TOTAL ASSETS	$ 27,217,814	$ 25,504,082

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Accounts payable	$ 177,975	$ 103,306
Accrued expenses	448,010	445,135
Current portion of long-term debt	193,760	183,760
Current portion of forgivable loan	9,706	9,706
Obligation under interest rate swap	811,782	-
Total current liabilities	1,641,233	741,907
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	8,452,097	8,646,460
Long-term forgivable loan, net of current portion	307,353	320,294
Obligation under interest rate swap	-	1,163,859
Total long-term liabilities	8,759,450	10,130,613
Total liabilities	10,400,683	10,872,520
NET ASSETS		
Unrestricted:		
Undesignated	12,286,514	10,808,631
Board-designated	4,126,995	3,524,660
Total unrestricted	16,413,509	14,333,291
Temporarily restricted	403,622	298,271
Total net assets	16,817,131	14,631,562
TOTAL LIABILITIES AND NET ASSETS	$ 27,217,814	$ 25,504,082

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

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Government fee for service contracts:			
Illinois Department of Children and Family Services (DCFS)	$ 7,994,484	$ -	$ 7,994,484
Runaway and Homeless Youth	117,730	-	117,730
Contributions	353,526	166,678	520,204
Special events revenue, net of $313,754 of related expenses	436,520	-	436,520
In-kind donations	1,615,870	-	1,615,870
Interest income	117,581	-	117,581
Investment income	485,257	-	485,257
Other income	261,784	-	261,784
Net assets released from restrictions	61,327	(61,327)	-
Total support and revenues	11,444,079	105,351	11,549,430
EXPENSES			
Program services	8,143,216	-	8,143,216
Management and general	1,281,855	-	1,281,855
Fundraising	290,867	-	290,867
Total expenses	9,715,938	-	9,715,938
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	1,728,141	105,351	1,833,492
OTHER ITEM			
Change in interest rate swap liability	352,077	-	352,077
CHANGE IN NET ASSETS	$ 2,080,218	$ 105,351	$ 2,185,569

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.
STATEMENTS OF CHANGES IN NET ASSETS
December 31, 2013 and 2012

	Total	Unrestricted	Temporarily Restricted
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
Change in net assets	2,185,569	2,080,218	105,351
NET ASSETS, DECEMBER 31, 2013	$ 16,817,131	$ 16,413,509	$ 403,622

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, 2013

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

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.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,185,569	$ 1,379,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,066,857	1,055,669
Change in interest rate swap liability	(352,077)	(35,507)
Gain on forgivable loan	-	(1,008,811)
Change in value of forgivable loan	(12,941)	-
Change in discount on receivables	(685)	(684)
Allowance for uncollectible pledges	31,503	46,121
(Gain) loss on sale of property and equipment, net	(3,042)	7,581
Donated property and equipment	(1,570,000)	(23,769)
Land conveyed back to City of Chicago	-	79,129
Unrealized gain on investments, net	(472,209)	(150,183)
Realized gain on investments, net	(13,048)	(9,779)
Effects of changes in operating assets and liabilities:		
Receivables	129,520	(225,901)
Prepaid expenses and other assets	(181,574)	(26,165)
Accounts payable	74,669	(63,226)
Accrued expenses	2,875	52,398
Net cash provided by operating activities	885,417	1,076,276
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(534,336)	(521,194)
Proceeds from sale of property and equipment	500	-
Purchases of investments	(3,200,781)	(1,504,115)
Proceeds from sale of investments	3,085,333	1,390,525
Net cash used in investing activities	(649,284)	(634,784)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(184,363)	(178,760)
NET INCREASE IN CASH	51,770	262,732
CASH, BEGINNING OF YEAR	1,954,353	1,691,621
CASH, END OF YEAR	$ 2,006,123	$ 1,954,353

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 nonprofit 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 accounting principles generally accepted in the United States of America for nonprofit organizations. Accounting principles generally accepted in the United States of America require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a Statement of Cash Flows and a Statement of Functional Expenses. The Organization has no permanently restricted net assets.

Investments

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

Service Fees Receivable

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

The carrying amount of service fees receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. All amounts are deemed collectible as of December 31, 2013 and 2012.

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

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 nonfinancial asset or are specialized skills that would be purchased if they were not donated. For the years ended December 31, 2013 and 2012, the Organization received $32,929 and $19,431, 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 $1,570,000 (see Note 15) and $23,769 in capitalized in-kind donations for the year ended December 31, 2013 and 2012, 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 15.

The Organization has a ground lease that was received in December 2011. The ground lease requires an annual rental payment for the use of the land by the Organization of $10, expiring at August 30, 2036. The Organization has recorded a discounted receivable and contribution for the difference in the fair market lease value of the land and the payments to be made over the life of the lease. The fair market lease value of the land over the lease term is $27,404 and $28,613 with a discount of $8,337 and $9,022, netting to $19,067 and $19,591, for the years ended December 31, 2013 and 2012, 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, 2013 and 2012.

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 2010, 2011, and 2012 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

In December 2011, the Organization acquired certain assets and assumed certain liabilities under a transfer of assets and an assumption of liabilities agreement with Boys Town Chicago, Inc., Father Flanagan's Boys' Home, an independent nonprofit organization. The Organization assumed a ground lease agreement for property (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 youth, 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 had 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 its 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 fair market value of the property to \$330,000. The Organization reversed the prior year loss on acquisition by recording a gain for the reduction in the value of the forgivable loan within its 2012 Statement of Activities in the amount of \$1,008,811. The forgivable loan had 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. The forgivable loan has a value of \$317,059 at December 31, 2013.

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 minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The measurement framework defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

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

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.

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, 2013 and 2012 are as follows:

December 31, 2013	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments:				
U.S. Government agencies	$ 986,657	$ -	$ 986,657	$ -
U.S. Treasury obligations	1,432,378	1,432,378	-	-
Corporate and foreign bonds	854,870	-	854,870	-
Domestic common stock	2,220,892	2,220,892	-	-
Foreign common stock	155,487	155,487	-	-
Real estate trusts	36,045	36,045	-	-
Total investments at fair value	5,686,329	$ 3,844,802	$ 1,841,527	$ -
Money market funds	265,139			
Total investments	$ 5,951,468			
Interest rate swap	$ 811,782	$ -	$ 811,782	$ -
December 31, 2012				
Investments:				
U.S. Government agencies	$ 1,079,501	$ -	$ 1,079,501	$ -
U.S. Treasury obligations	1,398,936	1,398,936	-	-
Corporate and foreign 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 at fair value	5,123,003	$ 3,196,698	$ 1,926,305	$ -
Money market funds	227,760			
Total investments	$ 5,350,763			
Interest rate swap	$ 1,163,859	$ -	$ 1,163,859	$ -

NOTE 5 - INVESTMENTS

Investments consist of the following at December 31, 2013 and 2012:

December 31, 2013	Cost	Market Value	Appreciation (Depreciation)
Money market funds	$ 265,139	$ 265,139	$ -
U.S. Government agencies	966,131	986,657	20,526
U.S. Treasury obligations	1,406,829	1,432,378	25,549
Corporate and foreign bonds	859,467	854,870	(4,597)
Domestic common stock	1,391,412	2,220,892	829,480
Foreign common stock	103,457	155,487	52,030
Real estate trusts	27,451	36,045	8,594
Total investments	$ 5,019,886	$ 5,951,468	$ 931,582

December 31, 2012	Cost	Market Value	Appreciation (Depreciation)
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

Investment income is comprised as follows:

	2013	2012
Net realized gains	$ 13,048	$ 9,779
Net unrealized gains	472,209	150,183
Total investment income	$ 485,257	$ 159,962

NOTE 6 - CONTRIBUTIONS RECEIVABLE

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

	2013	2012
Total unconditional promises to give, receivable in less than one year	$ 10,000	$ 8,789
Less allowance for uncollectible amounts	(4,929)	(1,000)
Net unconditional promises to give, current	$ 5,071	$ 7,789

NOTE 7 - LONG-TERM DEBT

Long-term debt is summarized as follows:

	2013	2012
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.	$ 745,857	$ 770,220
Bond payable to the Illinois Finance Authority with credit issued through Charter One Bank. The bond is an $8,500,000 adjustable rate demand revenue bond, Series 2009, issued on October 19, 2009. The bond carries interest at a variable rate and requires annual payments through November 1, 2031. The bond matures on July 1, 2032. The bond is secured by an interest in all properties. The bond includes various covenants, which have been met as of December 31, 2013 and 2012.	7,900,000	8,060,000
Total	8,645,857	8,830,220
Less current portion	193,760	183,760
Long-term portion	$ 8,452,097	$ 8,646,460

NOTE 7 - LONG-TERM DEBT (continued)

Future maturities of long-term debt are as follows:

2014	$ 193,760
2015	203,760
2016	213,760
2017	223,760
2018	233,760
Thereafter	7,577,057
Total	$ 8,645,857

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 Note 8). 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.

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

To protect the Organization from adverse and unexpected interest rate fluctuations, the Organization entered into an interest rate swap to convert its bond payable, which is based on a variable interest rate, to fixed-rate debt. The agreement was amended on September 28, 2009, to align with the Series 2009 bond issue.

Organizations are required under accounting principles generally accepted in the United States of America to recognize all derivative instruments as either assets or liabilities at fair value in their Statements of Financial Position. The Organization designates interest rate swaps as fair value hedges of fixed-rate borrowings. 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 London Interbank Offered Rate, resulted in reporting a liability for the fair value of the future net receipts forecasted under the swaps.

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recognized in the change in net assets. The Organization includes the gain or loss on the hedged item (that is, fixed-rate borrowings) in the same line item - change in interest rate swap liability - as the offsetting loss or gain on the related interest rate swap as follows:

Year Ended	Notional Amount	Liability	Income	Classification
December 31, 2013	$7,892,284	$ 811,782	$ 352,077	Other item - change in interest rate swap liability
December 31, 2012	$8,056,000	$1,163,859	$ 35,507	Other items - change in interest rate swap liability

The liability is classified as current, at the year ended December 31, 2013, since management settled the swap agreement during 2014 (see Note 17). The fixed-rate in effect for purposes of the swap was 3.35% at December 31, 2013 and 2012.

NOTE 9 - EMPLOYEE RETIREMENT PLAN

The Organization maintains a defined contribution plan under Section 403(b) of the IRC covering substantially all employees. This plan is available to all employees who have attained the age of 21 and have completed at least 1,000 hours of service. The plan includes two tiers, whereby the Organization is obligated to make contributions to the plan either at a rate of 4% or 7% of eligible salaries per year, depending on when the employee was hired. Participants in the plan become fully vested upon completion of five years of service. The Organization funds retirement costs monthly as incurred. Contributions to the plan totaled $109,614 and $96,698 for the years ended December 31, 2013 and 2012, respectively.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

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

	2013	2012
Step program	$ 13,994	$ 14,117
Lockport program	3,640	3,757
Lockport Scholarship Fund	425	425
Private School Education	1	1
Parent training program	34,499	34,250
Chicago Village new homes	100,000	100,000
Pride training	2,786	2,786
Tennis	2,265	2,265
Educational program	18,769	9,914
Field activities	1,604	1,604
Village garden	36,184	15,727
Graduate Greatness program	5,207	3,732
Christmas gifts	1,430	5,757
Shared learning	-	14,075
Chicago Village Wellness program	167,754	80,000
Young Executives Board	250	250
Jean Lonsdale Education Fund	9,814	9,611
Strategic plan	5,000	-
Total temporarily restricted net assets	$ 403,622	$ 298,271

NOTE 11 - 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:

	2013	2012
Graduate Greatness program	$ -	$ 268
Village garden	9,543	11,024
Christmas gifts	4,327	9,355
Educational program	1,145	8,653
Chicago Village Wellness program	12,246	10,925
Bowling for Foster Kids	-	7,746
Lockport program	117	1,565
Jean Lonsdale Education Fund	-	350
Step program	123	-
Parent training program	19,751	-
Shared learning	14,075	-
Total temporarily restricted net assets released	$ 61,327	$ 49,886

NOTE 12 - LEASE COMMITMENTS

The Organization leases office space under a noncancelable operating lease that expires during 2018. The office lease requires the Organization to pay certain operating costs such as maintenance and insurance. The Organization also assumed a ground lease agreement through the acquisition discussed in Note 3. The ground lease agreement expires on August 30, 2036. Rental expense under these operating leases totaled $118,381 and $101,165 for the years ended December 31, 2013 and 2012, respectively.

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

2014	$ 101,050
2015	101,926
2016	104,098
2017	106,270
2018	99,395
Thereafter	190
Total	$ 512,929

NOTE 13 - CASH FLOW DISCLOSURES

Cash paid for interest was $416,518 and $426,487 during the years ended December 31, 2013 and 2012, respectively.

The Organization received donated property and equipment totaling $1,570,000 and $32,840 during the years ended December 31, 2013 and 2012, respectively.

During 2013 and 2012, the Organization traded in vehicles and received an $8,500 and $7,500, respectively, reduction in the purchase price of new vehicles.

NOTE 14 - CONCENTRATIONS

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

Concentration of Revenue

Approximately 69% and 85% of total support and revenues in the years ended December 31, 2013 and 2012, respectively, were received from the State of Illinois Department of Children and Family Services (IDCFS). Receivables due from IDCFS totaled $90,805 and $322,397 as of December 31, 2013 and 2012, respectively.

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

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

NOTE 15 - CONTINGENCIES

Litigation

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

NOTE 15 - CONTINGENCIES (continued)

Donated Land

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 of Chicago shall have the right to convey the property to another entity.

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 the City of Chicago 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.

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

Letter of Credit

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

NOTE 16 - COMPLIANCE WITH GRANTOR RESTRICTIONS

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

NOTE 17 - SUBSEQUENT EVENTS

Management evaluated subsequent events through May 27, 2014, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2013, but prior to May 27, 2014 that provided additional evidence about conditions that existed at December 31, 2013, have been recognized in the financial statements for the year ended December 31, 2013. Events or transactions that provided evidence about conditions that did not exist at December 31, 2013, 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, 2013.

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

In March 2014, the Organization paid off its interest rate swap which aligned with the Series 2009 bond (see Note 8) in the amount of $804,000. The Organization simultaneously entered into a new interest rate swap agreement in conjunction with the Series 2014 bond issuance. The initial notional amount of the swap agreement is $13,000,000 with a fixed interest rate of 2.62% for a period of seven years. The remaining $3,000,000 of the Series 2014 bond has a variable interest rate initially set at 1.80% and is pegged to the London Interbank Offered Rate for a period of seven years.