



SOS Children's Villages Illinois, Inc.

Financial Statements
Years Ended December 31, 2016 and 2015

SOS Children's Villages Illinois, Inc.

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SOS Children's Villages Illinois, Inc.

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Tel: 847-676-2000
Fax: 847-676-2065
www.bdo.com

9500 Bryn Mawr Avenue, Suite 300
Rosemont, IL 60018

Independent Auditor's Report

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

Report on the Financial Statements

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, 2016 and 2015, and the related statements of activities, 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.

Auditor's 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 the *Government Auditing Standards*, issued by the Comptroller 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2017, on our consideration of 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.

BDO USA, LLP

Rosemont, Illinois
May 8, 2017



Tel: 847-676-2000
Fax: 847-676-2065
www.bdo.com

9500 Bryn Mawr Avenue, Suite 300
Rosemont, IL 60018

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

Board of Directors
SOS Children's Villages Illinois, 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"), (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, 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 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determinate 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.

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 entity'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 charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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 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.

BDO USA, LLP

Rosemont, Illinois
May 8, 2017

Financial Statements

SOS Children's Villages Illinois, Inc.

Statements of Financial Position

<i>December 31,</i>	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,427,987	\$ 4,136,333
Investments	1,848,748	1,838,678
Service fees receivable	148,032	314,049
Contributions receivable, net	514,085	20,950
Other receivables, net	32,005	38,888
Prepaid expenses and other assets	47,559	73,574
Total Current Assets	5,018,416	6,422,472
 Property and Equipment		
Land and improvements	6,509,283	6,509,283
Buildings and improvements	25,416,599	25,410,061
Furniture and equipment	3,225,779	3,216,187
Vehicles	1,164,802	1,091,951
Construction in process	323,292	113,723
	36,639,755	36,341,205
Less accumulated depreciation	(12,965,910)	(11,766,349)
Property and Equipment, Net	23,673,845	24,574,856
 Other Assets		
Investments - board-designated	4,727,559	4,347,418
Deposits	224,768	227,662
Total Other Assets	4,952,327	4,575,080
Total Assets	\$ 33,644,588	\$ 35,572,408

SOS Children's Villages Illinois, Inc.

Statements of Financial Position

<i>December 31,</i>	2016	2015
Liabilities and Shareholders' Equity		
Current Liabilities		
Current portion of long-term debt	\$ 423,760	\$ 555,760
Current portion of forgivable loan	9,706	9,706
Accounts payable	231,623	167,466
Accrued expenses	388,233	405,863
Total Current Liabilities	1,053,322	1,138,795
Long-Term Liabilities		
Long-term debt, net of current portion and bond issuance costs	13,229,271	15,376,020
Long-term forgivable loan, net of current portion	278,235	287,941
Obligation under interest rate swap	747,266	990,234
Total Long-Term Liabilities	14,254,772	16,654,195
Total Liabilities	15,308,094	17,792,990
Commitments and Contingencies		
Net Assets		
Unrestricted	11,794,899	12,521,638
Board-designated	4,727,559	4,347,418
Total Unrestricted	16,522,458	16,869,056
Temporarily restricted	1,814,036	910,362
Total Net Assets	18,336,494	17,779,418
Total Liabilities and Net Assets	\$ 33,644,588	\$ 35,572,408

See accompanying notes to financial statements.

SOS Children's Villages Illinois, Inc.

Statements of Activities

<i>Year ended December 31, 2016</i>	Unrestricted	Temporarily Restricted	Total
Net Revenue			
Government and service contracts Illinois Department of Children and Family Services (DCFS)	\$ 8,390,597	\$ -	\$ 8,390,597
Runaway and Homeless Youth	112,037	-	112,037
Contributions	452,071	1,073,001	1,525,072
Special events revenue, net of \$131,356 of cost of direct benefit to donors	358,063	-	358,063
In-kind donations	20,746	-	20,746
Interest income	178,113	-	178,113
Investment income	252,760	-	252,760
Other income	111,817	-	111,817
Net assets released from restriction	169,327	(169,327)	-
Total Net Revenue	10,045,531	903,674	10,949,205
Expenses			
Program services	8,876,289	-	8,876,289
Management and general	1,313,631	-	1,313,631
Fundraising	445,177	-	445,177
Total Expenses	10,635,097	-	10,635,097
Change in Net Assets Before Other Revenue (Expenses)	(589,566)	903,674	314,108
Other Income (Expenses)			
Change in fair value of interest rate swap	242,968	-	242,968
Change in Net Assets	(346,598)	903,674	557,076
Net Assets, beginning of year	16,869,056	910,362	17,779,418
Net Assets, end of year	\$ 16,522,458	\$ 1,814,036	\$ 18,336,494

See accompanying notes to financial statements.

SOS Children's Villages Illinois, Inc.

Statements of Activities

<i>Year ended December 31, 2015</i>	Unrestricted	Temporarily Restricted	Total
Net Revenue			
Government and service contracts Illinois Department of Children and Family Services (DCFS)	\$ 8,530,701	\$ -	\$ 8,530,701
Runaway and Homeless Youth	136,934	-	136,934
Contributions	407,008	895,945	1,302,953
Special events revenue, net of \$126,809 of cost of direct benefit to donors	486,378	-	486,378
In-kind donations	19,878	-	19,878
Interest income	131,525	-	131,525
Investment income	(197,554)	-	(197,554)
Other income	96,197	-	96,197
Net assets released from restriction	500,540	(500,540)	-
Total Net Revenue	10,111,607	395,405	10,507,012
Expenses			
Program services	8,656,963	-	8,355,179
Management and general	1,708,535	-	1,616,601
Fundraising	706,295	-	625,343
Total Expenses	11,071,793	-	11,071,793
Change in Net Assets Before Other Revenue (Expenses)	(960,186)	395,405	(564,781)
Other Income (Expenses)			
Change in fair value of interest rate swap	36,519	-	36,519
Change in Net Assets	(923,667)	395,405	(528,262)
Net Assets, beginning of year	17,792,723	514,957	18,307,680
Net Assets, end of year	\$ 16,869,056	\$ 910,362	\$ 17,779,418

See accompanying notes to financial statements.

SOS Children's Villages Illinois, Inc.

Statements of Functional Expenses

<i>Year ended December 31, 2016</i>	Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses				
Salaries	\$ 3,628,817	\$ 503,408	\$ 158,521	\$ 4,290,746
Fringe benefits	1,022,039	153,413	43,649	1,219,101
Total Salaries and Related Expenses	4,650,856	656,821	202,170	5,509,847
Other Expenses				
Contract personnel	140,127	13,435	40,635	194,197
Professional services	128,974	144,322	8,907	282,203
Staff recruitment	73,596	143,379	1,645	218,620
Home office	627,282	18	-	627,300
Program expense/supplies	386,740	956	-	387,696
Vehicles	206,811	5,009	1,344	213,164
Utilities	215,211	4,065	536	219,812
Building and grounds	250,942	67,513	16,970	335,425
Insurance	101,852	7,672	1,791	111,315
Other office expenses	332,786	144,273	19,982	497,041
Development expense	-	926	49,979	50,905
Special event expense	-	-	43,985	43,985
Board expenses	-	470	631	1,101
Fundraising/public relations	-	12,249	34,846	47,095
Miscellaneous	200	19,104	11,673	30,977
Interest expense	590,739	21,073	-	611,812
Total Other Expenses	3,055,261	584,466	232,925	3,872,652
Total expenses before depreciation	7,706,117	1,241,287	435,095	9,382,499
Depreciation	1,170,172	72,344	10,082	1,252,598
Total Functional Expenses	\$ 8,876,289	\$ 1,313,631	\$ 445,177	\$ 10,635,097

See accompanying notes to financial statements.

SOS Children's Villages Illinois, Inc.

Statements of Functional Expenses

<i>Year ended December 31, 2015</i>	Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses				
Salaries	\$ 3,694,061	\$ 609,214	\$ 205,492	\$ 4,508,767
Fringe benefits	927,391	176,624	71,078	\$ 1,175,093
Total Salaries and Related Expenses	4,621,452	785,838	276,570	\$ 5,683,860
Other Expenses				
Contract personnel	298,656	27,925	6,667	333,248
Professional services	109,435	203,331	8,558	321,324
Staff recruitment	77,887	122,427	13,117	213,431
Home office	680,549	-	-	680,549
Program expense/supplies	238,858	10,847	-	249,705
Vehicles	216,955	1,319	2,019	220,293
Utilities	214,343	6,710	509	221,562
Building and grounds	240,909	58,601	16,771	316,281
Insurance	101,636	5,832	1,571	109,039
Other office expenses	269,123	125,166	18,130	412,419
Development expense	-	-	145,881	145,881
Special event expense	-	-	115,286	115,286
Board expenses	-	360	1,883	2,243
Fundraising/public relations	-	4,416	74,905	79,321
Miscellaneous	727	30,289	12,726	43,742
Interest expense	381,512	237,826	-	619,338
Total Other Expenses	2,830,590	835,049	418,023	4,083,662
Total expenses before depreciation	7,452,042	1,620,887	694,593	9,767,522
Depreciation and amortization	1,204,921	87,648	11,702	1,304,271
Total Functional Expenses	\$ 8,656,963	\$ 1,708,535	\$ 706,295	\$ 11,071,793

See accompanying notes to financial statements.

SOS Children's Villages Illinois, Inc.

Statements of Cash Flow

Year ended December 31,	2016	2015
Cash Flows From Operating Activities		
Net income (loss)	\$ 557,076	\$ (528,262)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,252,598	1,292,259
Amortization of debt issuance costs	11,011	12,012
Change in interest rate swap liability	(242,968)	(36,519)
Change in value of forgivable loan	(9,706)	(9,706)
Gain on sale of property and equipment, net	-	(8,771)
Donated property and equipment	-	(6,278)
Unrealized (gain) loss on investments	(114,294)	558,992
Realized gain on investments	(138,466)	(361,438)
Changes in operating assets and liabilities, net of effects of acquisition and dispositions:		
Receivables	(320,235)	227,552
Prepaid expenses	26,015	(45,232)
Deposits	2,894	(14,092)
Accounts payable	64,157	(1,169,204)
Accrued expenses and other liabilities	(17,630)	57,521
Net cash provided by (used in) operating activities	1,070,452	(31,166)
Cash Flows From Investing Activities		
Purchases of property and equipment	(351,587)	(547,845)
Proceeds from sale of property and equipment	-	23,060
Purchase of investments	(1,603,762)	(1,042,592)
Proceeds from sale of investments	1,466,311	922,222
Net cash used in investing activities	(489,038)	(645,155)
Cash Flows From Financing Activities		
Payments on long-term debt	(2,289,760)	(369,760)
Net cash used in financing activities	(2,289,760)	(369,760)
Net Decrease in Cash and Cash Equivalents	(1,708,346)	(1,046,081)
Cash and Cash Equivalents, beginning of year	4,136,333	5,182,414
Cash and Cash Equivalents, end of year	\$ 2,427,987	\$ 4,136,333

See accompanying notes to financial statements.

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

1. Nature of Activities

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

On August 26, 2004, the Organization opened its first Urban Foster Care Village (Chicago Village). The Chicago Village consists of 15 single-family homes and four duplexes, which house foster children and professional foster parents. Chicago Village also includes 24 homes for moderate-income families through the Chicago Department of Housing's New Homes for Chicago. The centerpiece of the Chicago Village is a community center that includes day care, an infant and toddler program, an outpatient therapy center, meeting rooms, and administrative offices, which opened on September 5, 2007. The community center is open to the entire Auburn-Gresham community.

On December 30, 2011, the Organization acquired Casa Tepeyac, a facility that offers preventative and in-home services in the Back of the Yards of Chicago. Programs offered at Casa Tepeyac are aimed at strengthening families and offering individualized intervention for youth coming out of the juvenile justice system

On October 31, 2014, the Organization dedicated its second Urban Foster Care Village, Roosevelt Square Village, located in the Near West Side, Little Italy and University Village neighborhoods. Roosevelt Square Village consists of 14 duplex homes. The Roosevelt Square Village homes were made possible through funding and collaboration with the City of Chicago, the Chicago Housing Authority, and a bond placement with North Shore Community Bank & Trust Co. Temporary administrative offices are located near the Village and provide comprehensive wrap-around services to the children and families.

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

The Organization's program services are as follows:

Lockport, Chicago, and Roosevelt Square Villages

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

Each child in the Organization's care lives with a full-time SOS parent, and siblings live side by side under one roof. One of the Organization's primary goals is to reunite siblings previously separated and keep them together whenever possible. The Organization welcomes traumatized children and works to help them make the transition into self-reliant, productive adults, all while receiving the

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

support of their biological brothers and sisters. The Organization's model also provides case workers, therapists, and other supportive services on site, which improves the ability to help the children. The village concept creates a community environment, which ultimately provides much needed roots for the foster children and helps stabilize their environment.

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

Casa Tepeyac

Casa Tepeyac offers preventive and in-home family services. The team works to teach prevention in the home, ensure the well-being and safety of the children, as well as guide youth and families in strengthening their bonds. Additionally, offered at the facility are lectures, workshops, as well as individualized intervention for youth coming out of the juvenile justice system. These intervention services support families to help all parties adjust as youth re-enter home environments and stabilize placement to reduce the risk of recidivism.

In-Home Family Services help families build on their strengths, tackle tough problems, and stabilize to help youth deal with issues related to gang involvement or intimidation, delinquency, academics and relationships. Our staff work in the family home and community to help parents gain effective parenting skills, attain support services, resolve conflict and crisis, deter gang involvement, and improve social, life, coping, and academic skills.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Investments

Investments consist of money market funds, domestic 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 or decreases 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.

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

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, 2016 and 2015.

Property and Equipment

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

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

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

Depreciation expense for the years ended December 31, 2016 and 2015 was \$1,252,598 and \$1,292,259, respectively.

Net Assets

The net assets of the Organization are classified as follows:

- Unrestricted, which represents the portion of expendable net assets that are available for operations and those that the board has designated as additional support for client activities.
- Temporarily restricted, which represents the portion of net assets restricted for purpose or time.
- The Organization has no permanently restricted net assets.

Bond Closing Costs

In April 2015, The Financial Accounting Standards Board issued an Accounting Standards Update to simplify the presentation of debt issuance costs. This guidance requires that third-party debt issuance costs be presented in the statement of financial position as a direct deduction from the carrying value of the debt. This guidance is effective for fiscal years beginning after December 15, 2015.

Debt issuance costs are recorded as a deduction from the respective bonds payable and amortized on a straight-line basis over the term of the respective bond payable, which approximates the effective interest method. The costs are reflected, in accordance with Accounting Standards

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

Update No. 2015-03 ("ASU 2015-03"), as a deduction of the bonds payable in the accompanying statement of financial position.

The Organization has incurred various bond closing costs from the issuance of bonds (Note 6). These costs have been deferred and are amortized over the life of the respective bonds. Amortization of the debt issuance costs that has been included in interest expense for the years ended December 31, 2016 and 2015 was \$11,011 and \$12,012, respectively.

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

The Organization utilizes an interest rate swap arrangement to manage risks related to interest rate movements. The interest rate swap contract is reported at fair value. The gains or losses on the swap are included as a component of changes in net assets. The Organization's interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap contract to effectively convert variable rate debt to a fixed rate.

Support and Revenues

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

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

In-kind Donations

In-kind donations of property, equipment, or materials are recorded as financial support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Conditional transfers of assets are recognized when the conditions on which they depend are substantially met. 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, 2016 and 2015,

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

the Organization received \$13,306 and \$13,600, respectively, of legal, writing/public relations, and other miscellaneous services. These services were recorded as expenses in the financial statements. The Organization received \$7,440 and \$6,278 in capitalized in-kind donations for the years ended December 31, 2016 and 2015, respectively.

Functional Allocation of Expenses

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

Income Taxes

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

The Organization has adopted the requirements for accounting for uncertain tax positions. The Organization has determined that it is not required to record a liability related to uncertain tax positions for the years ended December 31, 2016 and 2015. The Organization files returns in the U.S. federal jurisdiction and in the state of Illinois.

Use of Estimates

The preparation of financial statements in conformity with 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.

New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 established a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the Statement of Activities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for leases for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of this ASU on their financial statements.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions",

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(b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Organization's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on their financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The ASU updates Topic 230 to require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. The ASU includes examples of the revised presentation guidance, and additional presentation and disclosure requirements apply. Management is currently evaluating the impact of this ASU on their financial statements.

Reclassifications

Certain reclassifications have been made to the 2015 amounts to conform to the 2016 classifications. These reclassifications did not impact any change in net assets.

3. Fair Value of Financial Instruments

The Organization uses the framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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If the asset or liability has a specified contractual term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are no changes in valuation methodologies during the years ended December 31, 2016 and 2015.

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. The Organization does not have Level 3 investments.

Interest Rate Swap

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

Fair values of assets and liabilities measured on a recurring basis at December 31, 2016 and 2015 are as follows:

	2016			
	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	\$ 166,359	\$ -	\$ 166,359	\$ -
U.S. Government agencies	690,787	-	690,787	-
U.S. Treasury obligations	1,183,572	-	1,183,572	-
Corporate and foreign bonds	1,923,828	-	1,923,828	-
Domestic common stock	2,611,761	2,611,761	-	-
Total Investments	\$ 6,576,307	\$ 2,611,761	\$ 3,964,546	\$ -
Interest rate swap	\$ 747,266	\$ -	\$ 747,266	\$ -

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	2015			
	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	\$ 109,471	\$ -	\$ 109,471	\$ -
U.S. Government agencies	1,003,867	-	1,003,867	-
U.S. Treasury obligations	1,553,074	-	1,553,074	-
Corporate and foreign bonds	1,205,180	-	1,205,180	-
Domestic common stock	2,269,170	2,269,170	-	-
Real estate trusts	45,334	45,334	-	-
Total Investments	\$ 6,186,096	\$ 2,314,504	\$ 3,871,592	\$ -
Interest rate swap	\$ 990,234	\$ -	\$ 990,234	\$ -

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

Cash and Cash Equivalents

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

Service Fees Receivable and Other Receivables

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

Contributions Receivable

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

Accounts Payable and Accrued Expenses

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

Long-Term Debt

The carrying value of the bond payable is presumed to approximate the fair value due to its variable interest rate.

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Notes to Financial Statements

4. Investments

Investments consist of the following at December 31, 2016 and 2015:

	2016		
	Cost	Market Value	Appreciation (Depreciation)
Money market funds	\$ 166,359	\$ 166,359	\$ -
U.S. Government agencies	683,026	690,787	7,761
U.S. Treasury obligations	1,173,571	1,183,572	10,001
Corporate and foreign bonds	1,920,766	1,923,828	3,062
Domestic common stock	2,038,953	2,611,761	572,808
Total Investments	\$ 5,982,675	\$ 6,576,307	\$ 593,632

	2015		
	Cost	Market Value	Appreciation (Depreciation)
Money market funds	\$ 109,471	\$ 109,471	\$ -
U.S. Government agencies	985,986	1,003,867	17,881
U.S. Treasury obligations	1,537,492	1,553,074	15,583
Corporate and foreign bonds	1,197,034	1,205,180	8,145
Domestic common stock	1,876,729	2,269,170	392,441
Real estate investment	34,691	45,334	10,643
Total Investments	\$ 5,741,403	\$ 6,186,096	\$ 444,693

	2016		2015
Net realized gains	\$	138,466	\$ 361,438
Net unrealized gains (losses)		114,294	(558,992)
Total Investment Income	\$	252,760	\$ (197,554)

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Notes to Financial Statements

5. Contributions Receivable

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

	2016	2015
Unconditional promises to give receivable in less than one year	\$ 60,135	\$ 26,150
Unconditional promises to give receivable in one to five years	451,950	-
Unconditional promises to give receivable in over five years	7,000	-
	519,085	26,150
Less allowance for uncollectible amounts	(5,000)	(5,200)
Net Unconditional Promises to Give, Current	\$ 514,085	\$ 20,950

6. Long-Term Debt

Long-term debt is summarized as follows:

	2016	2015
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.	\$ 673,200	\$ 696,960
Bond payable to the Illinois Finance Authority with credit issued through North Shore Community Bank & Trust Co. The bond is a \$16,000,000 adjustable rate demand revenue bond, Series 2014, issued on April 1, 2014. The bond carries interest at a variable rate and requires quarterly payments through the maturity date. The bond matures on March 1, 2044. The bond is secured by an interest in all properties. The bond includes various covenants, which have been met as of December 31, 2016.	13,308,000	15,574,000
Total	13,981,200	16,270,960
Less current portion	423,760	555,760
Long-Term Portion	\$ 13,557,440	\$ 15,715,200

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Future maturities of long-term debt are as follows:

2017	\$	423,760
2018		511,760
2019		511,760
2020		511,760
2021		511,760
Thereafter		11,510,400
Total future maturities		13,981,200
Less bond issuance costs		328,169
Total net of bond issuance costs		\$ 13,653,031

In April 2014, the Organization entered into a new Series 2014 bond in the amount of \$16,000,000. The new bond proceeds were used to pay off the Series 2009 bond and were used to finance construction at a new Village 14-home site, Roosevelt Square Village, and for construction at its Chicago Village (see Note 16).

On June 28, 2016, the Organization repaid principle in the amount of \$1,800,000 of the bond payable. The amortization schedule was amended to reflect this principle payment.

In conjunction with the bond offering, the Organization incurred bond issuance costs of \$360,000. These costs are amortized straight-line over the life of the bond (see Note 2).

7. Forgivable Mortgage

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

The Organization also received a building situated on the land of the previously noted ground lease and other miscellaneous equipment. The building was recorded at its appraisal value at \$330,000 at the closing date in 2011. The building has an attached forgivable loan with the City of Chicago, subject to annual forgiveness, as long as the Organization continues to operate the facility as a respite home for at-risk youth. The forgivable loan is subject to annual forgiveness of \$9,706, expiring on August 31, 2046. The forgivable loan had a balance of \$278,235 and \$287,941 at December 31, 2016 and 2015, respectively.

8. Derivative Financial Instruments

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

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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.

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

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

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

<i>Year ended December 31,</i>	2016	2015
Notional amount	\$ 13,000,000	\$ 13,000,000
Negative value of swap	747,266	990,234
Income from fair value adjustment	242,968	36,519

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 full-time employees who have attained the age of 21 and have completed at least one year of service and 1,000 hours of service within the 12-month period. The plan includes two tiers, whereby the Organization is obligated to make contributions to the plan either at a rate of 4% for all non-executive staff or 7% for executive management of eligible salaries per year. 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 \$139,143 and \$136,616 for the years ended December 31, 2016 and 2015, respectively.

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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:

	2016	2015
AmlI Family Events	\$ 11,854	\$ 8,295
Capital Campaign	1,014,444	236,107
Chicago Village Capital Projects (New Homes)	100,000	100,000
Chicago Village Wellness program	142,131	150,021
Christmas Gifts	-	1,430
College Bound and Beyond	327,533	188,511
Educational Program	127,813	129,856
Field Activities	1,471	1,471
Graduate Greatness Program	5,207	5,207
Jean Lonsdale Education Fund	8,080	10,800
Lockport Program	3,464	3,469
Lockport Scholarship Fund	425	425
Parent Training Program	26,173	28,655
Photo Club	700	700
Pride Training	-	2,710
Private School Education	1	1
Step Program	13,994	13,994
Strategic Plan	5,000	5,000
Swiss Garden Project	16,500	-
Tennis	2,265	2,265
Village Garden	6,731	21,195
Young Executives Board	250	250
Total Temporarily Restricted Net Assets	\$ 1,814,036	\$ 910,362

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 7. The ground lease requires an annual rental payment for the use of the land by the Organization of \$10, expiring at August 30, 2036. The Organization has recorded a discounted receivable and contribution for the difference in the fair market lease value of the land and the payments to be made over the life of the lease.

Rental expense under these operating leases totaled \$99,306 and \$99,312 for the years ended December 31, 2016 and 2015, respectively.

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

2017	\$	106,260
2018		99,385
Total	\$	205,645

12. Cash Flow Disclosures

Cash paid for interest was \$600,801 and \$619,338 during the years ended December 31, 2016 and 2015, respectively.

The Organization received donated property and equipment totaling \$0 and \$6,278 and during the years ended December 31, 2016 and 2015, respectively.

13. Concentrations

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

Concentration of Credit Risk

At times during the years ended December 31, 2016 and 2015, the Organization held cash in excess of federally insured limits.

Concentration of Revenue

Approximately 77% and 81% of total support and revenues in each of the years ended December 31, 2016 and 2015 were received from the State of Illinois Department of Children and Family Services (IDCFS). Receivables due from IDCFS totaled \$148,032 and \$314,049 as of December 31, 2016 and 2015, respectively.

For the year ended December 31, 2016, one donor accounted for approximately 33% of total contribution revenue.

For the year ended December 31, 2015, two donors accounted for approximately 51% of total contribution revenue.

14. Commitments

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. A foster care facility has been constructed on the land but not all units are occupied as of December 31, 2016. The Organization expects to have 100% occupancy of these units in 2017.

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15. Compliance with Grantor Restrictions

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

16. Subsequent Events

Management evaluated subsequent events through May 8, 2017, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2016, but prior to May 8, 2017 that provided additional evidence about conditions that existed at December 31, 2016, have been recognized in the financial statements for the year ended December 31, 2016. Events or transactions that provided evidence about conditions that did not exist at December 31, 2016, 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, 2016.