SOS CHILDREN'S VILLAGES ILLINOIS, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

CliftonLarsonAllen LLP

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YEARS ENDED DECEMBER 31, 2017 AND 2016

INDEPENDENT AUDITORS' 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 statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2016 financial statements of the Organization were audited by other auditors whose report dated May 8, 2017, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 7, 2018

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,261,885	$ 2,472,761
Investments	1,842,325	1,803,974
Service Fees Receivable	200,836	148,032
Contributions Receivable, Net	665,850	514,085
Other Receivables, Net	34,132	32,005
Prepaid Expenses and Other Assets	43,577	47,559
Total Current Assets	6,048,605	5,018,416
PROPERTY AND EQUIPMENT		
Land and Improvements	6,509,283	6,509,283
Buildings and Improvements	25,619,688	25,416,599
Furniture and Equipment	3,243,997	3,225,779
Vehicles	1,164,802	1,164,802
Constructions in Process	248,073	323,292
Total	36,785,843	36,639,755
Less: Accumulated Depreciation	14,195,036	12,965,910
Property and Equipment, Net	22,590,807	23,673,845
OTHER ASSETS		
Cash and Cash Equivalents – Board-Designated	154,246	121,585
Investments – Board-Designated	5,092,888	4,605,974
Investments Held for Deferred Compensation Plan	30,644	-
Deposits	213,648	224,768
Total Other Assets	5,491,426	4,952,327
Total Assets	$ 34,130,838	$ 33,644,588

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2017	2016
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 499,748	$ 423,760
Current Portion of Forgivable Loan	9,706	9,706
Accounts Payable	209,802	231,623
Accrued Expenses and Other Liabilities	1,039,152	388,233
Total Current Liabilities	1,758,408	1,053,322
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion and Bond Issuance Costs	12,741,535	13,229,271
Long-Term Forgivable Loan, Net of Current Portion	268,530	278,235
Deferred Compensation Plan	30,644	-
Obligation Under Interest Rate Swap	456,933	747,266
Total Long-Term Liabilities	13,497,642	14,254,772
Total Liabilities	15,256,050	15,308,094
NET ASSETS		
Unrestricted	11,659,922	11,794,899
Board-Designated	5,247,134	4,727,559
Total Unrestricted	16,907,056	16,522,458
Temporarily Restricted	1,967,732	1,814,036
Total Net Assets	18,874,788	18,336,494
Total Liabilities and Net Assets	$ 34,130,838	$ 33,644,588

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Total
NET REVENUE			
Government and Service Contracts Illinois Department of Children and Family Services (DCFS)	$ 9,021,463	$ -	$ 9,021,463
Contributions	621,486	482,919	1,104,405
Special Events Revenue	500,951	-	500,951
In-Kind Donations	17,216	-	17,216
Interest and Dividend Income	186,815	-	186,815
Investment Income	392,816	-	392,816
Other Income	124,106	-	124,106
Net Assets Released from Restriction	329,223	(329,223)	-
Total Net Revenue	11,194,076	153,696	11,347,772
EXPENSES			
Program Services	8,990,086	-	8,990,086
Management and General	1,410,133	-	1,410,133
Fundraising	699,592	-	699,592
Total Expenses	11,099,811	-	11,099,811
CHANGE IN NET ASSETS BEFORE OTHER INCOME	94,265	153,696	247,961
OTHER INCOME			
Change in Fair Value of Interest Rate Swap	290,333	-	290,333
CHANGE IN NET ASSETS	384,598	153,696	538,294
Net Assets – Beginning of Year	16,522,458	1,814,036	18,336,494
NET ASSETS – END OF YEAR	$ 16,907,056	$ 1,967,732	$ 18,874,788

See accompanying Notes to Financial Statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	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	489,419	-	489,419
In-Kind Donations	20,746	-	20,746
Interest and Dividend 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	10,176,887	903,674	11,080,561
EXPENSES			
Program Services	8,876,289	-	8,876,289
Management and General	1,313,631	-	1,313,631
Fundraising	576,533	-	576,533
Total Expenses	10,766,453	-	10,766,453
CHANGE IN NET ASSETS BEFORE OTHER INCOME	(589,566)	903,674	314,108
OTHER INCOME			
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.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES				
Salaries	$ 3,765,832	$ 578,143	$ 222,883	$ 4,566,858
Fringe Benefits	1,118,744	188,423	64,970	1,372,137
Total Salaries and Related Expenses	4,884,576	766,566	287,853	5,938,995
OTHER EXPENSES				
Contract Personnel	89,130	27,074	4,158	120,362
Professional Services	176,968	152,186	9,687	338,841
Staff Recruitment	63,194	57,241	4,905	125,340
Home Office	643,187	-	-	643,187
Program Expense/Supplies	404,877	145	-	405,022
Vehicles	228,269	5,601	1,046	234,916
Utilities	200,618	2,420	-	203,038
Building and Grounds	244,708	58,347	19,621	322,676
Insurance	102,603	4,920	3,094	110,617
Other Office Expenses	268,330	167,010	10,935	446,275
Development Expense	-	-	17,489	17,489
Special Event Expense	-	-	167,770	167,770
Board Expenses	-	995	-	995
In-Kind Expense	-	1,209	5,100	6,309
Fundraising/Public Relations	-	-	138,022	138,022
Miscellaneous	-	50,176	19,088	69,264
Interest Expense	502,726	79,144	-	581,870
Total Other Expenses	2,924,610	606,468	400,915	3,931,993
Total Expenses Before Depreciation	7,809,186	1,373,034	688,768	9,870,988
DEPRECIATION	1,180,900	37,099	10,824	1,228,823
Total Functional Expenses	$ 8,990,086	$ 1,410,133	$ 699,592	$ 11,099,811

See accompanying Notes to Financial Statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	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	-	-	175,341	175,341
Board Expenses	-	470	631	1,101
Fundraising/Public Relations	-	12,249	34,846	47,095
Miscellaneous	201	19,106	11,674	30,981
Interest Expense	590,739	21,073	-	611,812
Total Other Expenses	3,055,261	584,466	364,281	4,004,008
Total Expenses Before Depreciation	7,706,117	1,241,287	566,451	9,513,855
DEPRECIATION	1,170,172	72,344	10,082	1,252,598
Total Functional Expenses	$ 8,876,289	$ 1,313,631	$ 576,533	$ 10,766,453

See accompanying Notes to Financial Statements.

SOS CHILDREN'S VILLAGES ILLINOIS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 538,294	$ 557,076
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,228,823	1,252,598
Amortization of Debt Issuance Costs	12,012	11,011
Change in Obligation Under Interest Rate Swap	(290,333)	(242,968)
Change in Value of Forgivable Loan	(9,705)	(9,706)
Unrealized Gain on Investments	(86,233)	(114,294)
Realized Gain on Investments	(306,583)	(138,466)
Effects of Changes in Operating Assets and Liabilities:		
Receivables	(206,696)	(320,235)
Prepaid Expenses and Other Assets	3,982	26,015
Deposits	11,120	2,894
Accounts Payable	(21,821)	64,157
Accrued Expenses and Other Liabilities	650,919	(17,630)
Net Cash Provided by Operating Activities	1,523,779	1,070,452
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(145,785)	(351,587)
Purchase of Investments	(5,061,611)	(1,603,762)
Proceeds from Sale of Investments	4,929,162	1,632,670
Net Cash Used by Investing Activities	(278,234)	(322,679)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(423,760)	(2,289,760)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	821,785	(1,541,987)
Cash and Cash Equivalents – Beginning of Year	2,594,346	4,136,333
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 3,416,131	$ 2,594,346

See accompanying Notes to Financial Statements.

NOTE 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 four sites: three Villages that provide sibling foster care and one that offers preventive services. 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 neighborhood of Chicago. Programs offered at Casa Typeyac are aimed at strengthening families and offering individualized intervention for youth coming out of the juvenile justice system

On October 31, 2014, the Organization opened 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 Wintrust Bank. 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.

NOTE 1 NATURE OF ACTIVITIES (CONTINUED)

Lockport, Chicago, and Roosevelt Square Villages (Continued) – 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 caseworkers, 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.

NOTE 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.

Cash and Cash Equivalents

Cash and cash equivalents consists of all cash and highly liquid financial instruments with original maturities of three months or less, including money market funds, and which are neither held for nor restricted by donors for long-term purposes. Cash and cash equivalents – board-designated includes funds which had been specifically identified by the Organization's board to establish a long-term reserve.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of common equity securities, U.S. Treasury obligations, U.S. Government agencies investments, 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.

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. The valuation allowance was $5,000 as of December 31, 2017 and 2016.

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 the statements of activities. 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:

Buildings and Building Improvements	10 to 30 Years
Furniture and Equipment	3 to 10 Years
Vehicles	5 Years

Depreciation expense for the years ended December 31, 2017 and 2016 was $1,228,823 and $1,252,598, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The net assets of the Organization are classified as follows:

Unrestricted – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and board-designated endowment.

Temporarily Restricted – Net assets subject to donor restrictions that may or will be met by expenditures or our actions and/or the passage of time.

Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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.

Permanently Restricted – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by our actions. The Organization has no permanently restricted net assets.

Bond Issuance Costs

Bond 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. See Note 6.

Amortization of the debt issuance costs that has been included in interest expense for the years ended December 31, 2017 and 2016 was $12,012 and $11,011, 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Obligation Under Interest Rate Swap

The Organization utilizes an interest rate swap arrangement to manage risks related to interest rate movements on its bonds payable. See Note 6. The interest rate swap contract is reported at fair value in the statements of financial position, and unrealized gains or losses are included in the statements of activities. 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. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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, 2017 and 2016, the Organization received $17,216 and $20,746, respectively, of legal, writing/public relations, and other miscellaneous in-kind services.

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.

NOTE 2 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, 2017 and 2016. 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 accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

New Accounting Standards

Revenue Recognition

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts. Additionally, qualitative and quantitative disclosures are required regarding contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Organization for annual periods beginning after December 15, 2018. Early adoption is permitted beginning for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Organization’s leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

Financial Statements of Nonprofit Entities

In August 2016, the FASB issued amended guidance to improve the current net asset classification requirements and the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The main provisions of the update are:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the year, rather than the current three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets.
- Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting. However, no longer require the presentation or disclosure of the indirect method reconciliation, if using the direct method.
- Enhanced disclosures in the following areas:
    - Board designated net assets
    - Donor restricted net assets
    - Qualitative and quantitative information on liquidity
    - Amounts of expenses by both their natural and functional classification
    - Methods used to allocate costs among program and supporting functions
    - Underwater endowments
- Report investment return net of external and direct internal investment expenses and no longer require disclosures of those netted expenses.

The amendments should be applied on a retrospective basis in the year that the pronouncement is first applied. The standard will be effective for the Organization for annual periods beginning after December 15, 2017. Early adoption is permitted.

Management is currently evaluating the impact of these new accounting standards on their financial statements.

Reclassifications

Certain reclassifications have been made to the 2016 amounts to conform to the 2017 classifications. These reclassifications did not impact the previously reported change in net assets.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

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, 2017 and 2016.

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. The interest rate swap is classified within Level 2 of the valuation hierarchy.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2017 and 2016 are as follows:

	2017			
	Level 1	Level 2	Level 3	Total
Investments:				
U.S. Government Agencies	$ -	$ 375,061	$ -	$ 375,061
U.S. Treasury Obligations	-	1,203,826	-	1,203,826
Corporate and Foreign Bonds	-	2,326,843	-	2,326,843
Common Equity Securities	3,029,483	-	-	3,029,483
Total Investments	3,029,483	3,905,730	-	6,935,213
Investments Held for Deferred Compensation Plan	30,644	-	-	30,644
Total Assets	$ 3,060,127	$ 3,905,730	$ -	$ 6,965,857
Deferred Compensation Plan Liability	$ 30,644	$ -	$ -	$ 30,644
Interest Rate Swap	-	456,933	-	456,933
Total Liabilities	$ 30,644	$ 456,933	$ -	$ 487,577

	2016			
	Level 1	Level 2	Level 3	Total
Investments:				
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
Common Equity Securities	2,611,761	-	-	2,611,761
Total Investments	$ 2,611,761	$ 3,798,187	$ -	$ 6,409,948
Interest Rate Swap	$ -	$ 747,266	$ -	$ 747,266

NOTE 4 INVESTMENTS

Investments and investment income consist of the following at, and during the years ended, December 31, 2017 and 2016:

	2017 Cost	2017 Market Value	2017 Appreciation
U.S. Government Agencies	$ 371,910	$ 375,061	$ 3,151
U.S. Treasury Obligations	1,202,997	1,203,826	829
Corporate and Foreign Bonds	2,306,855	2,326,843	19,988
Common Equity Securities	2,332,430	3,029,483	697,053
Total Investments	$ 6,214,192	$ 6,935,213	$ 721,021

	2016 Cost	2016 Market Value	2016 Appreciation
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
Common Equity Securities	2,038,953	2,611,761	572,808
Total Investments	$ 5,816,316	$ 6,409,948	$ 593,632

	2017	2016
Net Realized Gains	$ 306,583	$ 138,466
Net Unrealized Gains	86,233	114,294
Total Investment Income	$ 392,816	$ 252,760

NOTE 5 CONTRIBUTIONS RECEIVABLE

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

	2017	2016
Unconditional Promises to Give Receivable in Less than One Year	$ 383,300	$ 60,135
Unconditional Promises to Give Receivable in One to Five Years	286,550	451,950
Unconditional Promises to Give Receivable in Over Five Years	1,000	7,000
Total	670,850	519,085
Less Allowance for Uncollectible Amounts	5,000	5,000
Net Unconditional Promises to Give, Current	$ 665,850	$ 514,085

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

Description	2017	2016
Mortgage note payable to the Illinois Housing Development Authority (IHDA); non-interest bearing; requires monthly payments of $1,980; final balloon payment due May 1, 2035; secured by property located in Lockport, Illinois and by a security interest in certain personal property.	$ 649,440	$ 673,200
Bond payable to the Illinois Finance Authority with credit issued through Wintrust Bank; $16,000,000 adjustable rate demand revenue bond, Series 2014, issued on April 1, 2014; bond matures March 1, 2044 with Wintrust Bank's put-date on April 16, 2021, which is expected to be extended prior to this date; bond carries interest at a variable rate and requires quarterly payments through the maturity date; bond is secured by an interest in all property; bond includes various covenants, which have been met as of December 31, 2017 and 2016.	12,908,000	13,308,000
Total	13,557,440	13,981,200
Less: Current Portion	499,748	423,760
Less: Bond Issuance Costs	316,157	328,169
Total Long-Term Portion	$ 12,741,535	$ 13,229,271

Future maturities of long-term debt are as follows:

Year Ending December 31,	Amount
2018	$ 511,760
2019	511,760
2020	511,760
2021	511,760
2022	511,760
Thereafter	10,998,640
Total Future Maturities	13,557,440
Less: Bond Issuance Costs	316,157
Total Net of Bond Issuance Costs	$ 13,241,283

In conjunction with the bond issuance, the Organization incurred bond issuance costs of approximately $360,000. These costs are amortized over the life of the bond.

NOTE 7 FORGIVABLE LOANS

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. See Note 12.

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 approximately $9,700, expiring on August 31, 2046.

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENT

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

The initial notional amount of the Organization's swap agreement was $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.

A summary of the borrowings, swap balance, and related other income is as follows:

	2017	2016
Notional Amount	$ 13,000,000	$ 13,000,000
Negative Value of Swap	456,933	747,266
Income from Fair Value Adjustment	290,333	242,968

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 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 nonexecutive 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 $126,361 and $139,143 for the years ended December 31, 2017 and 2016, respectively.

NOTE 10 DEFERRED COMPENSATION PLAN

During the year ended December 31, 2017, the Organization established a Section 457(b) deferred compensation plan which cover selected employees. The Organization, in its discretion, may make nonelective contributions to the 457(b) plan on behalf of its plan participants. The Association awarded $31,860 to and $3,088 was forfeited from the 457(b) plan for the year ended December 31, 2017. The deferred compensation plan was fully funded during the year ended December 31, 2017. The value of the plan assets was $30,644 for the year ended December 31, 2017, which is included in the statements of financial position as Investments Held for Deferred Compensation Plan along with a corresponding liability to the plan participants of the same amount.

NOTE 11 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:

	2017	2016
Amli Family Events	$ 8,374	$ 11,854
Capital Campaign	1,238,669	1,014,444
Chicago Village Capital Projects (New Homes)	-	100,000
Chicago Village Wellness Program	139,478	142,131
College Bound and Beyond	407,654	327,533
Educational Program	127,814	127,813
Field Activities	-	1,471
Graduate Greatness Program	5,207	5,207
Jean Lonsdale Education Fund	10,180	8,080
Lockport Program	-	3,464
Lockport Scholarship Fund	425	425
Parent Training Program	-	26,173
Photo Club	700	700
Private School Education	1	1
Step Program	-	13,994
Strategic Plan	5,000	5,000
Swiss Garden Project	21,965	16,500
Tennis	2,265	2,265
Village Garden	-	6,731
Young Executives Board	-	250
Total Temporarily Restricted Net Assets	$ 1,967,732	$ 1,814,036

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 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. The receivable is reported as other receivables, net in the statements of financial position.

Rental expense under these operating leases totaled $96,698 and $99,306 for the years ended December 31, 2017 and 2016, respectively.

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

Year Ending December 31,	Amount
2018	$ 99,385

NOTE 13 CASH FLOW DISCLOSURES

Cash paid for interest was $569,858 and $600,801 during the years ended December 31, 2017 and 2016, respectively.

NOTE 14 CONCENTRATIONS

Accounting principles generally accepted in the United States of America 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, 2017 and 2016, the Organization held cash in excess of federally insured limits.

Concentration of Revenue

Approximately 79% and 77% of total support and revenues in each of the years ended December 31, 2017 and 2016 were received from the state of Illinois Department of Children and Family Services (IDCFS). Receivables due from IDCFS totaled $200,836 and $148,032 as of December 31, 2017 and 2016, respectively.

For the year ended December 31, 2017, three donors accounted for approximately 48% of total contribution revenue.

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

NOTE 15 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, 2017. The Organization expects to have 100% occupancy of these units in 2018.

NOTE 16 COMPLIANCE WITH GRANTER 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 7, 2018, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2017, but prior to May 7, 2018 that provided additional evidence about conditions that existed at December 31, 2017, have been recognized in the financial statements for the year ended December 31, 2017. Events or transactions that provided evidence about conditions that did not exist at December 31, 2017, 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, 2017.

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
SOS Children's Villages 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), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 7, 2018

CliftonLarsonAllen

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