



SOS Children's Villages Illinois, Inc.

Financial Statements
Years Ended December 31, 2015 and 2014

SOS Children's Villages Illinois, Inc.

Financial Statements
Years Ended December 31, 2015 and 2014

SOS Children's Villages Illinois, Inc.

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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., which comprise the statement of financial position as of December 31, 2015, 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.

Auditor's 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 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 SOS Children's Villages Illinois, Inc. as of December 31, 2015, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2016, on our consideration of SOS Children's Villages Illinois, Inc.'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 SOS Children's Villages Illinois, Inc.'s internal control over financial reporting and compliance.

Other Matter

The financial statement of SOS Children's Villages Illinois, Inc. as of December 31, 2014 were audited by other auditors whose report dated June 23, 2015, expressed an unmodified opinion on those statements

BDO USA, LLP

June 13, 2016



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND 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. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, 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 June 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SOS Children's Villages Illinois, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SOS Children's Villages Illinois, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of SOS Children's Villages Illinois, Inc.'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 Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 SOS Children's Villages Illinois, Inc.'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 results 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

Chicago, Illinois
June 13, 2016

Financial Statements

SOS Children's Villages Illinois, Inc.

Statements of Financial Position

<i>December 31,</i>	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,136,333	\$ 5,182,414
Investments	1,838,678	1,837,628
Service fees receivable	314,049	235,674
Contributions receivable, net	20,950	56,800
Other receivables, net	38,888	308,965
Prepaid expenses and other assets	73,574	28,342
Total Current Assets	6,422,472	7,649,823
Property and Equipment		
Land and improvements	6,509,283	6,509,283
Buildings and improvements	25,410,061	25,004,872
Furniture and equipment	3,216,187	3,117,000
Vehicles	1,091,951	1,066,266
Construction in process	113,723	132,179
	36,341,205	35,829,600
Less accumulated depreciation	(11,766,349)	(10,502,319)
Property and Equipment, Net	24,574,856	25,327,281
Other Assets		
Investments - board-designated	4,347,418	4,425,652
Deposits	227,662	213,570
Bond closing costs, net of amortization	339,180	351,192
Total Other Assets	4,914,260	4,990,414
Total Assets	\$ 35,911,588	\$ 37,967,518

SOS Children's Villages Illinois, Inc.

Statements of Financial Position

<i>December 31,</i>	2015	2014
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 167,466	\$ 1,336,670
Accrued expenses	405,863	348,342
Current portion of long-term debt	555,760	369,760
Current portion of forgivable loan	9,706	9,706
Total Current Liabilities	1,138,795	2,064,478
Long-Term Liabilities		
Long-term debt, net of current portion	15,715,200	16,270,960
Long-term forgivable loan, net of current portion	287,941	297,647
Obligation under interest rate swap	990,234	1,026,753
Total Long-Term Liabilities	16,993,375	17,595,360
Total Liabilities	18,132,170	19,659,838
Commitments and Contingencies		
Net Assets		
Unrestricted	12,521,638	13,367,071
Board-designated	4,347,418	4,425,652
Total Unrestricted	16,869,056	17,792,723
Temporarily restricted	910,362	514,957
Total Net Assets	17,779,418	18,307,680
Total Liabilities and Net Assets	\$ 35,911,588	\$ 37,967,518

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 \$129,503 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 losses	(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	-	8,656,963
Management and general	1,708,535	-	1,708,535
Fundraising	706,295	-	706,295
Total Expenses	11,071,793	-	11,071,793
Change in Net Assets Before Other Income	(960,186)	395,405	(564,781)
Other Income			
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

SOS Children's Villages Illinois, Inc.

Statements of Activities

<i>Year ended December 31, 2014</i>	Unrestricted	Temporarily Restricted	Total
Net Revenue			
Government and service contracts Illinois Department of Children and Family Services (DCFS)	\$ 8,325,381	\$ -	\$ 8,325,381
Runaway and Homeless Youth	142,623	-	142,623
Contributions	2,205,172	137,397	2,342,569
Special events revenue, net of \$126,809 of cost of direct benefit to donors	457,548	-	457,548
In-kind donations	366,269	-	366,269
Interest income	137,214	-	137,214
Investment gains	164,868	-	164,868
Other income	366,171	-	366,171
Net assets released from restriction	26,062	(26,062)	-
Total Net Revenue	12,191,308	111,335	12,302,643
Expenses			
Program services	8,355,179	-	8,355,179
Management and general	1,616,601	-	1,616,601
Fundraising	625,343	-	625,343
Total Expenses	10,597,123	-	10,597,123
Change in Net Assets Before Other Expense	1,594,185	111,335	1,705,520
Other Expense			
Change in fair value of interest rate swap	(214,971)	-	(214,971)
Change in Net Assets	1,379,214	111,335	1,490,549
Net Assets, beginning of year	16,413,509	403,622	16,817,131
Net Assets, end of year	\$ 17,792,723	\$ 514,957	\$ 18,307,680

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 budget expense	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 and amortization	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

SOS Children's Villages Illinois, Inc.

Statements of Functional Expenses

<i>Year ended December 31, 2014</i>	Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses				
Salaries	\$ 3,376,284	\$ 599,061	\$ 184,287	\$ 4,159,632
Fringe benefits	986,821	168,149	51,462	1,206,432
Total Salaries and Related Expenses	4,363,105	767,210	235,749	5,366,064
Other Expenses				
Contract personnel	519,973	38,133	10,612	568,718
Professional services	80,584	282,990	46,940	410,514
Staff recruitment	-	25,695	47	25,742
Staff development	1,562	16,033	213	17,808
Staff travel	53,883	9,130	3,260	66,273
Home budget expense	703,416	-	-	703,416
Program expense/supplies	63,331	18,163	-	81,494
Program services	97,096	450	-	97,546
Vehicles	249,016	1,225	2,327	252,568
Utilities	217,357	8,992	934	227,283
Building and grounds	255,369	88,734	18,469	362,572
Insurance	83,565	27,850	1,668	113,083
Other office expenses	249,421	118,106	23,174	390,701
Fundraising/public relations	-	206	269,724	269,930
Miscellaneous	-	52,707	1,029	53,736
Interest expense	394,453	93,792	-	488,245
Uncollectible pledge expense	-	15,058	-	15,058
Total Other Expenses	2,969,026	797,264	378,397	4,144,687
Total expenses before depreciation and amortization	7,332,131	1,564,474	614,146	9,510,751
Depreciation and amortization	1,023,048	52,127	11,197	1,086,372
Total Functional Expenses	\$ 8,355,179	\$ 1,616,601	\$ 625,343	\$ 10,597,123

See accompanying independent auditors report and notes to financial statements.

SOS Children's Villages Illinois, Inc.

Statements of Cash Flows

<i>Year ended December 31,</i>	2015	2014
Cash Flows From Operating Activities		
Net (loss) income	\$ (528,262)	\$ 1,490,549
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,304,271	1,086,372
Change in interest rate swap liability	(36,519)	214,971
Change in value of forgivable loan	(9,706)	(9,706)
Allowance for uncollectible pledges	-	15,058
Gain on sale of property and equipment, net	(8,771)	(2,750)
Contributions restricted for long-term purposes	-	(1,854,488)
Donated property and equipment	(6,278)	(289,611)
Unrealized loss (gain) on investments	558,992	(7,638)
Realized gain on investments	(361,438)	(157,230)
Changes in operating assets and liabilities:		
Receivables	227,552	(403,077)
Prepaid expenses	(45,232)	(198,371)
Deposits	(14,092)	-
Accounts payable	(1,169,204)	1,158,695
Accrued expenses and other liabilities	57,521	(99,668)
Total adjustments	497,096	(547,443)
Net cash (used in) provided by operating activities	(31,166)	943,106
Cash Flows From Investing Activities		
Purchases of property and equipment	(547,845)	(7,475,222)
Proceeds from sale of property and equipment	23,060	6,000
Purchase of investments	(1,042,592)	(3,376,423)
Proceeds from sale of investments	922,222	3,229,479
Net cash used in investing activities	(645,155)	(7,616,166)
Cash Flows From Financing Activities		
Contributions restricted for long-term purposes	-	1,854,488
Proceeds from long-term debt	-	16,000,000
Payments on long-term debt	(369,760)	(8,005,137)
Net cash (used in) provided by financing activities	(369,760)	9,849,351
Net (Decrease) Increase in Cash and Cash Equivalents	(1,046,081)	3,176,291
Cash and Cash Equivalents, beginning of year	5,182,414	2,006,123
Cash and Cash Equivalents, end of year	\$ 4,136,333	\$ 5,182,414

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 12 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, which offers a group residential living program and family strengthening services. The group residential living program offers short-term shelter designed to assist at-risk youth between the ages of 10 and 17. The family strengthening services help families build on their strengths, tackle tough problems, and provide assistance to youth issues.

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 neighborhood. 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. Currently, temporary administrative offices are shared with the Heartland Alliance. As an integral part of Roosevelt Square Village, the Organization has plans for constructing a village community center.

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

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

children and works to help them make the transition into self-reliant, productive adults, all while receiving the support of their biological brothers and sisters. The Organization's model also provides case workers, therapists, and other supportive services on site, which improves the ability to help the children. The village concept creates a community environment, which ultimately provides much needed roots for the foster children and helps stabilize their environment.

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

Casa Tepeyac

Casa Tepeyac offers a group residential living program and in home family strengthening services. The group residential living program offers short-term shelter designed to assist at-risk youth between the ages of 10 and 17. This program also assesses and treats youth involved in the juvenile justice system. The program's objective is to instill healing for the abused, while providing a safe shelter for runaway and homeless youth. This safe haven teaches youth to stay off the streets and remain in school, while making better choices to become self-sufficient.

The in home family strengthening services help families build on their strengths, tackle tough problems, and provide assistance to youth dealing with issues related to gang involvement or intimidation, delinquency, academics, and relationships. The services provided serve two purposes: 1) help decrease family crises to prevent youth from being removed from the home due to behavioral challenges and/or parenting issues, and 2) address high-risk behavioral situations at a critical point in the youth's life to offset the likelihood of becoming gang involved. The Organization's staff works with the families in their homes, typically for a period of three months to help parents gain new child-rearing skills, attain supportive services, and resolve conflict and crisis within the family.

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 as recommended in the American Institute of Certified Public Accountants' Audit and Accounting Guide for Not-for-Profit of the Organization.

Financial Statement Presentation

Financial statement presentation follows accounting principles generally accepted in the United States of America for nonprofit organizations. Accounting principles generally accepted in the United States of America require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (see Support and Revenues). In addition, the Organization is required to present a statement of cash flows and a statement of functional expenses. The Organization has no permanently restricted net assets.

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

Investments

Investments consist of money market funds, domestic and foreign securities, real estate investment trusts, U.S. Treasury obligations, U.S. Government agencies, and corporate and foreign bonds. Investments - board-designated includes funds which had been specifically identified by the Organization's board to establish a long-term reserve. Investments are carried at fair value with unrealized and realized gains and losses on investments reported as increases 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. All amounts are deemed collectible as of December 31, 2015 and 2014.

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, 2015 and 2014 was \$1,292,259 and \$1,076,211, respectively.

For the years ended December 31, 2015 and 2014, the Organization capitalized \$0 and \$163,428, respectively in interest costs associated with the construction of Roosevelt Square Village. This amount is included in building and improvements on the statements of financial position.

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

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.

Bond Closing Costs

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 expense for the years ended December 31, 2015 and 2014 was \$12,012 and \$10,161, respectively. In addition, the unamortized bond closing costs from the Series 2009 bonds of \$115,766 were charged to expense during the year ended December 31, 2014.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Interest Rate Swap

During 2008, the Organization entered into an interest rate swap to manage risks related to interest rate movements. This interest rate swap was refinanced in 2014 with the issuance of the Series 2014 bond and an associated interest rate swap agreement (Note 8). 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

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

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, 2015 and 2014, the Organization received \$13,600 and \$48,407, respectively, of legal, writing/public relations, and other miscellaneous services. These services were recorded as expenses in the financial statements. The Organization received \$6,278 and \$289,611 in capitalized in-kind donations for the years ended December 31, 2015 and 2014, 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, changes in net assets, and statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Expenses are charged to each function based on direct expenditures incurred. Any expenditures not directly chargeable are allocated to the programs based on the proportional use of the service provided.

Income Taxes

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

The Organization has adopted the requirements for accounting for uncertain tax positions. The Organization has determined that it is not required to record a liability related to uncertain tax positions for the years ended December 31, 2015 and 2014.

The Organization files returns in the U.S. federal jurisdiction and in the state of Illinois. The federal and state tax returns of the Organization from 2012 through the current year are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of

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revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *"Revenue From Contracts With Customers."* ASU 2014-09 supersedes nearly all existing revenue recognition under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration an entity expects to be entitled to those goods or services using a defined five-step process. More judgment and estimates may be required to achieve this principle than under existing U.S. GAAP. ASU 2014-09 is effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption which includes footnote disclosures. The Organization is currently evaluating the impact of the adoption of ASU 2015-09 on the Organization's financial statements and has not yet determined the method of adoption.

In May 2015, the FASB issued ASU 2015-07, *"Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)."* ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Removing these investments from the fair value hierarchy will determine diversity in current practice, resulting from the way in which investments measured at net asset value per share with future redemption dates are classified and ensure that all investments categorized in the fair value hierarchy are classified using consistent approach. Investments that calculate net asset value per share, but for which the practical expedient is not applied, will continue to be included and should be applied retrospectively to all periods presented. Early adoption of the amendments is permitted. The Organization did not early adopt the new guidance during the year ended December 31, 2015. The Organization is currently evaluating the impact of this guidance on its financial statements.

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. The Organization is currently evaluating the potential impact of the adoption of ASU 2016-02 on the Organization's financial statement.

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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.

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, 2015 and 2014.

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.

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

Fair values of assets and liabilities measured on a recurring basis at December 31, 2015 and 2014 are as follows:

	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 investment	45,334	45,334	-	-
Total Investments	\$ 6,186,096	\$ 2,314,504	\$ 3,871,592	\$ -
Interest rate swap	\$ 990,234	\$ -	\$ 990,234	\$ -

	2014			
	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	\$ 78,389	\$ -	\$ 78,389	\$ -
U.S. Government agencies	1,166,120	-	1,166,120	-
U.S. Treasury obligations	1,430,974	-	1,430,974	-
Corporate and foreign bonds	1,154,659	-	1,154,659	-
Domestic common stock	2,203,235	2,203,235	-	-
Foreign common stock	189,252	189,252	-	-
Real estate investment	40,651	40,651	-	-
Total Investments	\$ 6,263,280	\$ 2,433,138	\$ 3,830,142	\$ -
Interest rate swap	\$ 1,026,753	\$ -	\$ 1,026,753	\$ -

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.

SOS Children's Villages Illinois, Inc.

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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 (see Note 16).

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 and Long-Term Forgivable Loan

The carrying value of the long-term debt and long-term forgivable loan is presumed to approximate the fair value.

4. Investments

Investments consist of the following at December 31, 2015 and 2014:

	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

SOS Children's Villages Illinois, Inc.

Notes to Financial Statements

	2014		
	Cost	Market Value	Appreciation (Depreciation)
Money market funds	\$ 78,389	\$ 78,389	\$ -
U.S. Government agencies	1,147,402	1,166,120	18,718
U.S. Treasury obligations	1,398,002	1,430,974	32,972
Corporate and foreign bonds	1,147,244	1,154,659	7,415
Domestic common stock	1,329,778	2,203,235	873,457
Foreign common stock	151,400	189,252	37,852
Real estate investment	34,691	40,651	5,960
Total Investments	\$ 5,286,906	\$ 6,263,280	\$ 976,374

	2015	2014
Net realized gains	\$ 361,438	\$ 157,230
Net unrealized (losses) gains	(558,992)	7,638
Total Investment (Losses) Gains	\$ (197,554)	\$ 164,868

5. Contributions Receivable

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

	2015	2014
Total unconditional promises to give, receivable in less than one year	\$ 26,150	\$ 62,000
Less allowance for uncollectible amounts	(5,200)	(5,200)
Net Unconditional Promises to Give, Current	\$ 20,950	\$ 56,800

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Notes to Financial Statements

6. Long-Term Debt

Long-term debt is summarized as follows:

	2015	2014
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.	\$ 696,960	\$ 720,720
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 of which the Organization was in compliance with or received a waiver for as of December 31, 2015.	15,574,000	15,920,000
Total	16,270,960	16,640,720
Less current portion	555,760	369,760
Long-Term Portion	\$ 15,715,200	\$ 16,270,960

Future maturities of long-term debt are as follows:

2016		\$ 555,760
2017		555,760
2018		555,760
2019		555,760
2020		555,760
Thereafter		13,492,160
Total		\$ 16,270,960

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).

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Notes to Financial Statements

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 \$287,941 and \$297,647 at December 31, 2015 and 2014, 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.

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.

In March 2014, the Organization entered into a new interest rate swap agreement in conjunction with the Series 2014 bond issuance. The 2014 swap was issued to pay off the 2009 interest rate swap so it had a fair value of \$804,000 at inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year, which, because of changes in forecasted levels of the London Interbank Offered Rate, resulted in reporting a liability for the fair value of the future net receipts forecasted under the swaps.

The initial notional amount of the 2014 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>	2015	2014
Notional amount	\$ 13,000,000	\$ 13,000,000
Liability	990,234	1,026,753
Gain (loss)	36,519	(214,971)

SOS Children's Villages Illinois, Inc.

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The fixed rate in effect for purposes of the swap was 2.62% at December 31, 2015 and 2014.

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 \$136,616 and \$127,082 for the years ended December 31, 2015 and 2014, respectively.

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:

	2015	2014
AMLI Family Events	\$ 8,295	\$ 3,831
Capital Campaign	236,107	-
Chicago Village Capital Projects (New Homes)	100,000	100,000
Chicago Village Wellness program	150,021	167,754
Christmas Gifts	1,430	1,430
College Bound and Beyond	188,511	-
Educational Program	129,856	128,434
Field Activities	1,471	1,604
Graduate Greatness Program	5,207	5,207
Jean Lonsdale Education Fund	10,800	9,850
Lockport Program	3,469	3,487
Lockport Scholarship Fund	425	425
Parent Training Program	28,655	30,631
Photo Club	700	700
Pride Training	2,710	2,710
Private School Education	1	1
S Three Raffle - Education	-	7,010
Step Program	13,994	13,994
Strategic Plan	5,000	5,000
Tennis	2,265	2,265
Village Garden	21,195	30,374
Young Executives Board	250	250
Total Temporarily Restricted Net Assets	\$ 910,362	\$ 514,957

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Notes to Financial Statements

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 \$99,312 and \$110,314 for the years ended December 31, 2015 and 2014, respectively.

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

2016	\$	104,088
2017		106,260
2018		99,385
<hr/>		
Total	\$	309,733

12. Cash Flow Disclosures

Cash paid for interest was \$619,338 and \$534,407 during the years ended December 31, 2015 and 2014, respectively.

The Organization received donated property and equipment totaling \$6,278 and \$289,611 during the years ended December 31, 2015 and 2014, respectively.

13. Concentrations

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

Concentration of Credit Risk

At times during the years ended December 31, 2015 and 2014, the Organization held cash in excess of federally insured limits.

Concentration of Revenue

Approximately 81% and 69% of total support and revenues in each of the years ended December 31, 2015 and 2014 were received from the State of Illinois Department of Children and Family Services (IDCFS). Receivables due from IDCFS totaled \$314,049 and \$235,674 as of December 31, 2015 and 2014, respectively.

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

For the year ended December 31, 2014, one donor accounted for approximately 79% 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, 2015. The Organization expects to have 100% occupancy of these units in 2017.

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.

Currently, FASB is considering a proposed ASU updated for Not-for-Profit-Entities (Topic 598) Presentation of Financial Statements of Not-for-Profit Entities. The proposed amendment would change several of the requirements for financial statements and notes with the intent of improving the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit (NFP) entity's liquidity, financial performance, and cash flows.

Specifically this proposal would: eliminate the distinction between resources with permanent restrictions and those with temporary restrictions from face to face financial statements; require an NFP to present intermediate measure of operations in the statement of activities; require an NFP to present operating cash flows using the direct method; reclassify certain items reported in cash flow statement; require enhanced disclosures; require an NFP to use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset; and require an NFP to report investment income net of external and direct internal investment expenses.

The effective date, and whether it should be the same for all NFPs, as well as early adoption would be permitted will be determined by the Accounting Standards Board after considering stakeholders' feedback on the proposed amendments.

16. Subsequent Events

Management evaluated subsequent events through June 13, 2016, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2015, but prior to June 13, 2016 that provided additional evidence about conditions that existed at

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December 31, 2015, have been recognized in the financial statements for the year ended December 31, 2015. Events or transactions that provided evidence about conditions that did not exist at December 31, 2015, 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, 2015.

SOS Children's Villages Illinois currently has approximately \$1,900,000 of unused bond funds from the 2014 \$16,000,000 bond issued by the Illinois Finance Authority. It is the intention of the Organization to return the unused portion to Wintrust Financial Corporation in June 2016.