CHILDREN'S HOME AND AID SOCIETY
OF ILLINOIS AND AFFILIATES
Chicago, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

CliftonLarsonAllen

TABLE OF CONTENTS

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Children's Home and Aid Society of
Illinois and Affiliates
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Children's Home and Aid Society of Illinois and Affiliates (the "Agency"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Agency as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
November 5, 2013

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

ASSETS

	2013	2012
Cash and cash equivalents	$ 3,899,485	$ 1,599,333
Accounts receivable, net of allowance for doubtful accounts of $147,615 and $150,000 in 2013 and 2012, respectively	5,578,712	5,945,813
Pledges receivable	576,616	205,068
Prepaid expenses and other assets	419,627	337,301
Other investment	1,000,000	-
Board-designated assets for investment and deferred compensation plan	14,569,471	8,794,458
Donor-restricted cash and investments	4,964,588	4,732,456
Beneficial interest in trusts	4,557,422	1,467,166
Land, buildings, equipment, and leasehold improvements, net of accumulated depreciation and amortization	17,379,010	17,916,418
TOTAL ASSETS	$ 52,944,931	$ 40,998,013

LIABILITIES AND NET ASSETS

	2013	2012
LIABILITIES		
Accounts payable and accrued expenses	$ 2,898,866	$ 2,446,643
Accrued salaries, wages, paid leave, pension, and payroll taxes	3,664,232	3,221,231
Deferred compensation	275,000	165,000
Deferred revenue	1,705,085	828,016
Capital lease obligation	345,784	410,715
Long-term debt	1,295,323	1,614,566
Total liabilities	10,184,290	8,686,171
NET ASSETS		
Unrestricted	31,482,166	25,549,930
Temporarily restricted	4,127,780	2,814,754
Permanently restricted	7,150,695	3,947,158
Total net assets	42,760,641	32,311,842
TOTAL LIABILITIES AND NET ASSETS	$ 52,944,931	$ 40,998,013

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

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended June 30, 2013 and 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions	$ 3,546,822	$ 1,099,902	$ -	$ 4,646,724
Bequests	50,000	-	-	50,000
Foundations and trusts	756,782	-	-	756,782
Contributions from associated fundraising organizations	1,113,132	-	-	1,113,132
Fees and grants from governmental agencies for services rendered to clients	54,442,251	-	-	54,442,251
Program service fees	1,387,754	-	-	1,387,754
Investment income	129,406	85,551	-	214,957
Net assets released from restrictions and other reclassifications	1,889,091	(1,597,141)	-	291,950
Miscellaneous	296,410	-	-	296,410
Total revenues and other support	63,611,648	(411,688)	-	63,199,960
EXPENSES				
Total program services	54,760,132	-	-	54,760,132
Supporting services:				
Management and general	7,000,251	-	-	7,000,251
Fundraising	1,837,734	-	-	1,837,734
Total expenses	63,598,117	-	-	63,598,117
Income (loss) from operations	13,531	(411,688)	-	(398,157)
COMPREHENSIVE FUNDRAISING CAMPAIGN REVENUE				
General public, corporate, and foundation support	-	1,549,218	82,694	1,631,912
Net assets released from restrictions and other reclassifications	-	(291,950)	-	(291,950)
Total comprehensive fundraising campaign revenue	-	1,257,268	82,694	1,339,962
NON-OPERATING GAINS (LOSSES)				
Net realized and unrealized gains on investments	1,202,867	367,580	195,443	1,765,890
Excess of assets acquired over liabilities assumed in acquisition of The Youth Campus	5,034,614	99,866	2,925,400	8,059,880
Non-recurring costs relating to The Youth Campus real property until sold	(318,776)	-	-	(318,776)
Total non-operating gains	5,918,705	467,446	3,120,843	9,506,994
CHANGE IN NET ASSETS	5,932,236	1,313,026	3,203,537	10,448,799
NET ASSETS, BEGINNING OF YEAR	25,549,930	2,814,754	3,947,158	32,311,842
NET ASSETS, END OF YEAR	$ 31,482,166	$ 4,127,780	$ 7,150,695	$ 42,760,641

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions	$ 3,612,746	$ 457,367	$ -	$ 4,070,113
Bequests	186,919	-	-	186,919
Foundations and trusts	832,687	-	-	832,687
Contributions from associated fundraising organizations	1,134,474	-	-	1,134,474
Fees and grants from governmental agencies for services rendered to clients	47,234,401	-	-	47,234,401
Program service fees	1,305,240	-	-	1,305,240
Investment income	92,698	88,877	-	181,575
Net assets released from restrictions and other reclassifications	646,007	(646,007)	-	-
Miscellaneous	151,463	-	-	151,463
Total revenues and other support	55,196,635	(99,763)	-	55,096,872
EXPENSES				
Total program services	48,111,456	-	-	48,111,456
Supporting services:				
Management and general	5,624,382	-	-	5,624,382
Fundraising	1,403,476	-	-	1,403,476
Total expenses	55,139,314	-	-	55,139,314
Income (loss) from operations	57,321	(99,763)	-	(42,442)
NON-OPERATING GAINS (LOSSES)				
Net realized and unrealized losses on investments	(182,463)	(208,739)	(15,304)	(406,506)
Change in cash surrender value of life insurance	(2,362)	-	-	(2,362)
Total non-operating losses	(184,825)	(208,739)	(15,304)	(408,868)
CHANGE IN NET ASSETS	(127,504)	(308,502)	(15,304)	(451,310)
NET ASSETS, BEGINNING OF YEAR	25,677,434	3,123,256	3,962,462	32,763,152
NET ASSETS, END OF YEAR	$ 25,549,930	$ 2,814,754	$ 3,947,158	$ 32,311,842

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

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 10,448,799	$ (451,310)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,258,868	1,241,597
Deferred compensation	110,000	90,000
Provision for bad debts	200,572	55,959
Permanently restricted contributions	(82,694)	-
Excess of assets acquired over liabilities assumed in acquisition of The Youth Campus	(8,059,880)	-
Net realized and unrealized (gains) losses on permanently and temporarily restricted net assets	(563,023)	224,043
Net realized and unrealized (gains) losses on assets whose use is limited or restricted, excluding investments of permanently and temporarily restricted net assets	(1,202,867)	182,463
Stock donation	(1,000,000)	-
Effects of changes in operating assets and liabilities:		
Accounts receivable	592,820	(638,290)
Pledges receivable	(320,548)	96,277
Prepaid expenses and other assets	(79,943)	(21,195)
Accounts payable and accrued expenses	(899,942)	870,643
Accrued salaries, wages, paid leave, pension, and payroll taxes	341,487	259,271
Other liabilities	596,218	330,604
Net cash provided by operating activities	1,339,867	2,240,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land	6,390,408	-
Cash received in acquisition of The Youth Campus	128,966	-
Acquisition of land, buildings, equipment, and leasehold improvements	(675,889)	(1,000,538)
Purchases of trustee-held, board-designated, and donor-restricted cash and investments	(4,773,049)	(1,851,997)
Sales and maturities of trustee-held, board-designated, and donor-restricted cash and investments	2,331,376	2,098,069
Net cash provided by (used in) investing activities	3,401,812	(754,466)

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(2,344,243)	(240,524)
Payments on capital lease obligation	(97,284)	(68,000)
Net cash used in financing activities	(2,441,527)	(308,524)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,300,152	1,177,072
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,599,333	422,261
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,899,485	$ 1,599,333
SUPPLEMENTARY DISCLOSURES		
Schedule of non-cash investing and financing transactions:		
Investing:		
Total capital acquisitions	$ 7,111,868	$ 1,479,253
Less amount acquired in acquisition of The Youth Campus	(6,435,979)	-
Less amount financed through capital lease obligation	-	(478,715)
Cash paid for capital acquisitions	$ 675,889	$ 1,000,538
Financing:		
Capital lease obligation used to finance capital acquisitions	$ -	$ 478,715
Cash paid for interest	$ 149,191	$ 171,337

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

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

	Program Services						
	Adoption	Counseling	Child Care	Child Care Resource and Referral	Foster Care	Intact Family Services	Parental Support
Salaries	$ 59,459	$ 2,569,145	$ 5,155,957	$ 1,423,881	$ 8,249,175	$ 1,756,854	$ 1,338,773
Employee health and retirement benefits	9,021	381,585	773,118	211,826	1,219,785	254,200	200,069
Payroll taxes	4,204	184,759	367,584	102,180	589,452	124,352	94,914
Total salaries and related expenses	72,684	3,135,489	6,296,659	1,737,887	10,058,412	2,135,406	1,633,756
Professional fees	925	30,109	268,991	288,464	706,462	373,914	264,605
Supplies	1,867	36,950	624,567	55,252	136,821	119,305	92,045
Telephone	5,844	57,385	143,201	48,532	356,794	56,890	41,190
Postage and shipping	258	6,812	4,582	18,525	32,382	4,870	3,514
Occupancy	3,616	210,510	486,413	173,321	1,024,158	111,111	63,386
Outside printing	214	2,253	4,494	18,077	17,814	2,913	6,150
Local transportation	3,775	147,568	35,363	23,774	821,011	175,474	53,255
Conferences and meetings	102	15,950	35,849	27,083	37,557	26,338	25,627
Subscriptions and reference	-	121	6,783	1,218	40	280	1,049
Specific assistance	1,325	18,638	39,314	3,646	7,378,306	107,182	46,124
Membership dues	-	185	5,959	1,553	715	575	6,537
Repairs, maintenance, and rental	98	9,675	44,369	10,301	57,518	12,536	9,204
Miscellaneous	563	14,940	32,836	8,347	72,063	16,627	10,255
Total expenses before depreciation, amortization, interest, and financing fees	91,271	3,686,585	8,029,380	2,415,980	20,700,053	3,143,421	2,256,697
Depreciation and amortization	287	41,890	422,719	19,344	217,395	46,862	48,073
Interest and financing fees	69	5,033	6,729	5,060	19,743	3,646	2,602
TOTAL EXPENSES	$ 91,627	$ 3,733,508	$ 8,458,828	$ 2,440,384	$ 20,937,191	$ 3,193,929	$ 2,307,372

	Program Services (continued)				Supporting Services			
	Residential Services	Youth Services	Program Services Management	Total Program Services	Management and General	Fundraising	Total Supporting Services	Totals
Salaries	$ 3,462,161	$ 3,428,842	$ 608,720	$ 28,052,967	$ 3,826,358	$ 995,023	$ 4,821,381	$ 32,874,348
Employee health and retirement benefits	486,299	514,688	92,754	4,143,345	554,645	150,910	705,555	4,848,900
Payroll taxes	245,253	247,054	45,598	2,005,350	259,696	72,005	331,701	2,337,051
Total salaries and related expenses	4,193,713	4,190,584	747,072	34,201,662	4,640,699	1,217,938	5,858,637	40,060,299
Professional fees	128,238	1,857,712	4,482	3,923,902	773,743	164,185	937,928	4,861,830
Supplies	351,817	150,634	30,709	1,599,967	127,910	14,622	142,532	1,742,499
Telephone	50,419	102,220	16,171	878,646	107,314	3,217	110,531	989,177
Postage and shipping	1,231	9,159	2,190	83,523	28,139	20,252	48,391	131,914
Occupancy	254,600	213,956	60,350	2,601,421	562,401	11,431	573,832	3,175,253
Outside printing	1,266	8,739	7,858	69,778	10,821	52,454	63,275	133,053
Local transportation	53,456	177,057	12,616	1,503,349	75,352	13,392	88,744	1,592,093
Conferences and meetings	13,634	41,735	11,674	235,549	77,673	24,537	102,210	337,759
Subscriptions and reference	-	3,486	67	13,044	7,109	564	7,673	20,717
Specific assistance	96,403	289,719	5,482	7,986,139	5,288	2,491	7,779	7,993,918
Membership dues	1,625	836	1,576	19,561	81,390	3,303	84,693	104,254
Repairs, maintenance, and rental	38,234	14,097	4,150	200,182	25,103	4,610	29,713	229,895
Miscellaneous	19,250	44,736	6,193	225,810	288,134	303,452	591,586	817,396
Total expenses before depreciation, amortization, interest, and financing fees	5,203,886	7,104,670	910,590	53,542,533	6,811,076	1,836,448	8,647,524	62,190,057
Depreciation and amortization	283,273	74,255	8,959	1,163,057	94,649	1,162	95,811	1,258,868
Interest and financing fees	3,713	7,114	833	54,542	94,526	124	94,650	149,192
TOTAL EXPENSES	$ 5,490,872	$ 7,186,039	$ 920,382	$ 54,760,132	$ 7,000,251	$ 1,837,734	$ 8,837,985	$ 63,598,117

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

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012

	Program Services						
	Adoption	Counseling	Child Care	Child Care Resource and Referral	Foster Care	Intact Family Services	Parental Support
Salaries	$ 77,484	$ 2,343,906	$ 5,214,557	$ 1,351,249	$ 6,046,525	$ 1,260,929	$ 1,068,287
Employee health and retirement benefits	13,540	388,975	878,046	224,295	986,812	193,697	171,818
Payroll taxes	5,370	167,870	371,521	96,267	433,539	88,453	77,417
Total salaries and related expenses	96,394	2,900,751	6,464,124	1,671,811	7,466,876	1,543,079	1,317,522
Professional fees	11,036	30,186	302,399	246,872	548,929	89,068	207,326
Supplies	471	37,217	684,807	67,493	129,846	45,116	109,427
Telephone	5,887	53,506	107,095	45,441	198,247	36,666	36,766
Postage and shipping	465	8,996	4,933	30,951	29,163	5,204	3,337
Occupancy	4,271	241,928	459,790	180,079	627,124	92,824	67,699
Outside printing	86	2,689	6,322	28,302	8,707	3,458	29,754
Local transportation	3,518	142,796	37,212	25,893	632,528	103,803	58,601
Conferences and meetings	444	14,083	30,283	18,599	47,465	12,740	23,466
Subscriptions and reference	-	142	1,215	408	30	-	116
Specific assistance	8,184	48,591	32,883	4,022	5,687,646	118,320	32,638
Membership dues	(375)	30	2,053	1,403	969	120	3,306
Repairs, maintenance, and rental	197	13,147	27,226	9,816	34,432	6,392	5,029
Miscellaneous	533	13,742	38,594	7,577	61,458	13,778	9,989
Total expenses before depreciation, amortization, interest, and financing fees	131,111	3,507,804	8,198,936	2,338,667	15,473,420	2,070,568	1,904,976
Depreciation and amortization	492	53,004	444,160	21,119	188,314	53,102	42,450
Interest and financing fees	52	4,499	5,119	3,956	12,203	2,250	2,267
TOTAL EXPENSES	$ 131,655	$ 3,565,307	$ 8,648,215	$ 2,363,742	$ 15,673,937	$ 2,125,920	$ 1,949,693

	Program Services (continued)				Supporting Services			
	Residential Services	Youth Services	Program Services Management	Total Program Services	Management and General	Fundraising	Total Supporting Services	Totals
Salaries	$ 3,445,639	$ 3,058,093	$ 589,829	$ 24,456,498	$ 3,046,545	$ 790,225	$ 3,836,770	$ 28,293,268
Employee health and retirement benefits	528,490	514,188	103,827	4,003,688	471,549	135,198	606,747	4,610,435
Payroll taxes	243,839	219,481	44,074	1,747,831	198,758	57,019	255,777	2,003,608
Total salaries and related expenses	4,217,968	3,791,762	737,730	30,208,017	3,716,852	982,442	4,699,294	34,907,311
Professional fees	157,843	2,210,110	7,496	3,811,265	577,098	126,111	703,209	4,514,474
Supplies	330,494	164,973	45,098	1,614,942	105,261	16,048	121,309	1,736,251
Telephone	42,365	83,825	34,843	644,641	89,344	5,556	94,900	739,541
Postage and shipping	2,570	9,366	3,278	98,263	22,354	34,429	56,783	155,046
Occupancy	261,544	210,288	44,220	2,189,767	437,183	10,627	447,810	2,637,577
Outside printing	10,947	8,223	3,545	102,033	8,301	32,923	41,224	143,257
Local transportation	49,381	164,816	11,431	1,229,979	64,631	7,437	72,068	1,302,047
Conferences and meetings	16,377	53,241	19,169	235,867	86,088	9,520	95,608	331,475
Subscriptions and reference	303	127	256	2,597	21,796	1,547	23,343	25,940
Specific assistance	107,182	294,157	2,038	6,335,661	1,051	414	1,465	6,337,126
Membership dues	3,275	1,625	2,716	15,122	70,970	1,500	72,470	87,592
Repairs, maintenance, and rental	52,071	12,421	11,667	172,398	29,592	187	29,779	202,177
Miscellaneous	25,497	61,673	22,268	255,109	178,015	173,442	351,457	606,566
Total expenses before depreciation, amortization, interest, and financing fees	5,277,817	7,066,607	945,755	46,915,661	5,408,536	1,402,183	6,810,719	53,726,380
Depreciation and amortization	269,728	45,192	39,122	1,156,683	83,727	1,187	84,914	1,241,597
Interest and financing fees	2,750	4,598	1,418	39,112	132,119	106	132,225	171,337
TOTAL EXPENSES	$ 5,550,295	$ 7,116,397	$ 986,295	$ 48,111,456	$ 5,624,382	$ 1,403,476	$ 7,027,858	$ 55,139,314

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Children's Home and Aid Society of Illinois (the "Society"), an Illinois not-for-profit corporation, is a social service organization serving families throughout the State of Illinois. The Society provides adoption, foster care, residential care, child care, and child and family counseling and related services. A description of affiliated organizations follows:

- Children's Home and Aid Society Foundation (the "Foundation"), an Illinois not-for-profit corporation of which the Society is the sole corporate member, oversees investments of the Society and its affiliated organization.
- Morgan-Washington Home, Inc., an Illinois not-for-profit corporation of which the Society is the sole corporate member, is operated exclusively for the benefit of the Society and provides oversight direction and administration of the John M. Scott Industrial Trust.
- The Youth Campus (TYC), an Illinois not-for-profit corporation of which the Society became the sole member on August 1, 2012, is a 135-year old social service organization serving families in Chicagoland with services similar to those provided by the Society.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Society and its wholly owned and controlled affiliates (the "Agency"). All significant transactions among these corporations have been eliminated in consolidation.

Business Combination

On August 1, 2012, the Agency acquired certain assets and liabilities of TYC. Accordingly, the changes in net assets for TYC have been included in the accompanying consolidated financial statements from that date forward.

The business combination was accounted for as an acquisition and there was no consideration given.

This acquisition provided the Agency with an additional $4 million in operating revenue and expense primarily in the foster care area. In addition, TYC owned approximately 11 acres of land which was sold in June 2013. The value of all assets assumed, net of expenses, contingencies, and other assumed liabilities was approximately $8 million. Of the $8 million of net assets assumed, $5 million from the property sale was invested in Foundation assets with the majority of the remainder consisting of beneficial trust interests.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following assets and liabilities were recognized in the acquisition (at fair value):

Cash	$ 128,966
Receivables	477,291
Financial assets	4,807,144
Property and equipment	6,435,979
Other assets	2,383
Financial liabilities	(3,791,883)
Excess of assets acquired over liabilities assumed in acquisition of The Youth Campus	$ 8,059,880

The excess of assets acquired over liabilities assumed arose primarily as a result of adjusting property and equipment to fair market value, in addition to the positive net assets already existing at TYC. Costs related to the acquisition of TYC and ongoing ownership of the real property, including legal, accounting, security, maintenance, and other property related costs totaling $318,776 are included in non-operating gains (losses) in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

Use of Estimates in Preparing Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidated Financial Statement Presentation

The Agency prepares its consolidated financial statements in accordance with GAAP. Under GAAP, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Agency is required to present a Consolidated Statement of Cash Flows.

Basis of Accounting

The consolidated financial statements have been prepared using the accrual basis of accounting.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Fundraising Campaign

During the fiscal year ended June 30, 2013, the Agency embarked on a comprehensive fundraising campaign to raise funds for facility, endowment, and program sustainability and innovation. The campaign is in its "silent" phase and thus, the total goal for the campaign has not been finalized. As the campaign moves into the "public phase", the Agency will provide appropriate public communication regarding the goal and uses of funds.

Revenues and Other Support

Revenue transactions deemed by management to be ongoing, major, or central to the provision of social services are included in revenues and other support on the Consolidated Statements of Activities and Changes in Net Assets. Transactions incidental to the provision of social services are reported as non-operating gains and losses.

The Agency receives contributions through pledges, bequests, beneficial interests in trusts, and outright gifts of cash and property. Contributions are classified as unrestricted, temporarily restricted, or permanently restricted based on donor direction.

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in temporarily restricted or permanently restricted net assets, as appropriate. When a temporary restriction expires, the related net assets are reclassified to unrestricted net assets. Investment income and realized and unrealized gains and losses resulting from contributions are reported as unrestricted, temporarily restricted, or permanently restricted net assets, as directed by the donor.

Functional Allocation of Expenses

The costs of providing various program and supporting services have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets and the Consolidated Statements of Functional Expenses.

Cash Equivalents

The Agency considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. However, all cash and investments whose use is limited by the board of trustees (board) or restricted by donors are considered long-term investments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Agency accounts for investments in accordance with GAAP, which requires investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value. Investment income (comprised of interest and dividends) is included in revenues and other support. Realized and unrealized gains and losses on investments are reported in the Consolidated Statements of Activities and Changes in Net Assets as non-operating gains and losses.

Board-designated assets include investments set aside by the board for the deferred compensation plan and other purposes. The board retains discretionary control over these investments.

Accounts Receivable

Accounts receivable are primarily uncollateralized governmental obligations stated at the invoice amounts that generally are payable within 30 days from the billing date.

Payments of accounts receivable are applied to the specific invoices identified on the funding source's remittance advice or, if unspecified, to the earliest unpaid invoices.

Accounts receivable is reduced by a valuation allowance that reflects management's best assessment of the collectability of specific funding source accounts based on specific information, the aging of specific accounts, and historical experience. If actual amounts collected are lower than management's estimates thereof, the Agency's financial results could be adversely affected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

Pledges Receivable

Unconditional pledges to give cash and property are reported at fair value at the date the pledge is received.

Any amounts that are known to be uncollectible are written off and thus, a provision has not been made for potentially uncollectible amounts as of June 30, 2013 and 2012, based on management's assessment of the specific promises to give and the aging thereof.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land, Buildings, Equipment, and Leasehold Improvements

Land, buildings, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is provided on the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	5 - 39 years
Office furniture and equipment	5 - 15 years
Automobiles	5 years
Leasehold improvements	4 - 10 years

Long-Lived Assets

The Agency evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Agency evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

Beneficial Interest in Trusts

Beneficial interest in trusts represents the fair value of the portion of trusts for which the Agency is beneficiary in perpetuity and is permanently restricted. The income from these trusts is permanently restricted. The trusts, which are all administered by bank trustees, are comprised primarily of farm land and equity or fixed-income securities. Fair value of equity and fixed-income securities is based primarily on quoted market prices. Fair value for farm land is based on periodic independent appraisals. Realized and unrealized gains and losses on the beneficial interest in trusts are recorded to permanently restricted net assets in the Consolidated Statements of Activities and Changes in Net Assets.

Income Taxes

All entities included in the Agency are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. The entities qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations that are not private foundations under Section 509(a)(1).

The Agency evaluates its exposure for uncertain tax positions on an annual basis. As of June 30, 2013 and 2012, there were no liabilities for uncertain tax positions.

The federal and state returns of the Agency for fiscal years ended 2010, 2011, and 2012 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after filing.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable consist of pledges that are expected to be collected during the following fiscal years:

Years Ending June 30,

2014	$ 282,919
2015	164,667
2016	147,167
2017	13,000
2018	3,000
Total pledges receivable	610,753
Less discount to net present value	(34,137)
Total	$ 576,616

The discount rate used for the years ended June 30, 2013 and 2012 was 3%.

NOTE 3 - INVESTMENTS

A summary of the composition of the Agency's investments follows:

	2013	2012
Corporate bonds and notes	$ 4,157,795	$ 3,215,606
Equity securities, mutual funds, exchange traded funds, other funds, and partnerships	15,190,497	10,039,921
Cash equivalents and money market funds	185,767	271,387
Beneficial interest in trusts	4,557,422	1,467,166
Other investment	1,000,000	-
Total	$ 25,091,481	$ 14,994,080

NOTE 3 - INVESTMENTS (continued)

Included in equity securities and mutual funds above is the Portfolio Advisors Private Equity Fund IV, L.P., the Common Sense Investors II, L.P., the Common Sense Partners II, L.P., and the Cyrus Opportunities Fund II Ltd. These funds are non-public, pooled investments that are not registered as investment companies with the U.S. Securities and Exchange Commission. They are considered speculative with a higher degree of risk and potential volatile performance than the Agency's other investments. The estimated market value of these funds is determined by the funds' custodians, as quoted market prices are not available. The Agency has invested $1,142,259 ($1,400,000 total commitment) in the Portfolio Advisors Private Equity Fund IV, L.P., as of June 30, 2013 and 2012. The market value for this fund was estimated at $1,049,356 and $1,104,320 at June 30, 2013 and 2012, respectively. The Agency has invested $712,148 and $1,350,000 in the Common Sense limited partnerships as of June 30, 2013 and 2012, respectively. The market value of these funds was $787,684 and $1,384,150 as of June 30, 2013 and 2012, respectively. The Agency is in the process of liquidating its position in the Common Sense investment and reinvesting the proceeds in a mutual fund. The Agency has invested $1,000,000 in the Cyrus Opportunities Fund II Ltd. as of June 30, 2013 and 2012. The market value for this fund was estimated at $1,566,967 and $1,117,037 as of June 30, 2013 and 2012, respectively.

The other investment includes donated stock representing an approximate 1% stake in a closely held bank. The fair value at the time of the donation, and at year-end, was determined by comparing the number of shares donated to the Agency to the current stock transactions disclosed in the bank's financial statements. The Agency intends to liquidate the stock within the next three years, the proceeds of which are restricted for use in the comprehensive fundraising programs.

The composition of investment return on the Agency's investment portfolio for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Interest and dividend income	$ 214,957	$ 181,575
Net realized gains on sales	157,720	191,718
Net unrealized gains (losses)	1,608,170	(598,224)
Total	$ 1,980,847	$ (224,931)

NOTE 4 - FAIR VALUE MEASUREMENTS

In determining fair value, the Agency uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. The fair value measurement framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The framework defines levels within the hierarchy based on the reliability of inputs as follows:

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

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

The fair values of assets and liabilities measured on a recurring basis at June 30, 2013 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Equities:				
U.S. mutual funds	$ 5,740,454	$ 5,740,454	$ -	$ -
International mutual funds	5,363,233	5,363,233	-	-
Hedge funds	194,946	194,946	-	-
Fixed-income:				
Mutual funds	4,157,795	-	4,157,795	-
Exchange traded funds	119,505	119,505	-	-
Other funds	368,352	368,352	-	-
Non-public pooled investments	3,404,007	-	-	3,404,007
Beneficial interest in trusts	4,557,422	-	4,557,422	-
Other investment	1,000,000	-	-	1,000,000
Total assets at fair value	24,905,714	$ 11,786,490	$ 8,715,217	$ 4,404,007
Cash and cash equivalents	185,767			
Total assets	$ 25,091,481			

Fair value for Level 1 equities, exchange traded funds, and other funds are determined by reference to quoted market transactions. Fair value of Level 2 fixed-income securities and beneficial interest in trusts is determined by reference to quoted market transactions for assets similar to those held to support the underlying assets. Fair value for Level 3 investments, which consist of non-public pooled investments that are not registered as investment companies with the U.S. Securities and Exchange Commission (see Note 3 for additional information), are determined by the funds' custodians using various pricing models for the assets held in each fund.

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

The non-public pooled investments consist of private equity funds that invest primarily in diversified leveraged buyouts, venture capital companies, and other investment funds. The fair value of these investments has been estimated using the net asset value of the Agency's ownership interest. Currently, the Agency is not eligible to redeem the investment in one of the investments, valued at $1,049,356, until the later of the termination of the partnership (December 31, 2016), or one year after all the assets of the partnership have been liquidated. $787,684 of the remaining investment is redeemable at 25% at June 30 or 100% at calendar year-end with, in both cases, a redemption notice period of 100 days is required.

On December 1, 2010, the Agency invested $1,000,000 in Cyrus Opportunities Fund II Ltd. One of the principals of this fund is related to a trustee of the Agency. The principal of the fund has personally guaranteed recovery of the Agency's initial investment in the fund and all fees to the fund have been waived. This guarantee has an initial term of five years ending December 1, 2015. Under certain circumstances, this guarantee can be cancelled early.

The other investment consists of donated stock (see Note 3). The fair value of this investment was determined by reviewing transactions disclosed in the entity's financial statements related to an employee share based compensation plan and treasury stock.

Gains and losses (realized and unrealized) on the investments valued using significant unobservable inputs are included in net realized and unrealized gains (losses) on investments in the accompanying Consolidated Statements of Activities and Changes in Net Assets. The change in unrealized gain relating to assets still held as of June 30, 2013 and 2012 is $515,757 and $104,720, respectively.

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) during the year ended June 30, 2013:

Investments:	
Balance as of June 30, 2012	$ 3,605,507
Donation of other investment	1,000,000
Sale of investments	(717,257)
Change in fair value estimate	515,757
Balance as of June 30, 2013	$ 4,404,007

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

Fair values of assets and liabilities measured on a recurring basis at June 30, 2012 are as follows:

	Fair Value	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Equities:				
U.S. mutual funds	$ 3,678,968	$ 3,678,968	$ -	$ -
International mutual funds	2,485,697	2,485,697	-	-
Hedge funds	269,749	269,749	-	-
Fixed-income:				
Corporate	2,037,996	-	2,037,996	-
Mutual funds	1,177,610	-	1,177,610	-
Non-public pooled investments	3,605,507	-	-	3,605,507
Beneficial interest in trusts	1,467,166	-	1,467,166	-
Total assets at fair value	14,722,693	$ 6,434,414	$ 4,682,772	$ 3,605,507
Cash and cash equivalents	271,387			
Total assets	$ 14,994,080			

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) during the year ended June 30, 2012:

Investments:	
Balance as of June 30, 2011	$ 3,548,019
Sale of investments	(47,232)
Change in fair value estimate	104,720
Balance as of June 30, 2012	$ 3,605,507

NOTE 5 - LAND, BUILDINGS, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

A summary of land, buildings, equipment, and leasehold improvements as of June 30, 2013 and 2012 follows:

	2013	2012
Land	$ 823,473	$ 823,473
Buildings and improvements	23,735,419	22,809,262
Office furniture and equipment	3,823,352	3,472,430
Automobiles	112,485	112,485
Leasehold improvements	137,174	137,174
Construction in progress	173,605	705,647
Total, at cost	28,805,508	28,060,471
Less allowance for depreciation and amortization	11,426,498	10,144,053
Total land, buildings, equipment, and leasehold improvements	$ 17,379,010	$ 17,916,418

NOTE 6 - RETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS

Employee Retirement Plan

The Agency sponsors a defined contribution 401(k) plan covering all employees who have completed 12 months of service, performed 975 hours of service, and are age 21 or older. The 401(k) plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 and is a contributory plan to which the Agency may make discretionary contributions. The Agency recognized benefit expense related to the 401(k) plan of $241,741 and $218,261 in 2013 and 2012, respectively.

Deferred Compensation Plan

The Agency maintains a non-qualified deferred compensation plan for certain of its executives. The Agency recognized plan expense of $75,000 for each of the years ended June 30, 2013 and 2012. In addition, the Agency allocates appreciation or depreciation to the plan based on the investment performance of the Foundation assets. This amounted to $35,000 and $15,000 of appreciation for the years ended June 30, 2013 and 2012, respectively.

NOTE 6 - RETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS (continued)

Self-Funded Medical Plan

The Agency self-funds the claims cost of its medical plan covering those employees who elect coverage and their dependents. Under the terms of the coverage, the Agency's estimated annual claim costs are $3.5 million subject to an annually specified maximum amount estimated at $4.9 million. The Agency has recorded a liability of $392,000 and $350,000 as of June 30, 2013 and 2012 on the Consolidated Statements of Financial Position that represents management's estimate of reported and unreported medical claims incurred prior to that date. Claims incurred but not reported are expected to be insignificant. The Agency also maintains a cash reserve of $1,000,000 and $750,000 as of June 30, 2013 and 2012, respectively, to cover both the liability noted above and potential cash needs of this plan.

NOTE 7 - FEES AND GRANTS FROM GOVERNMENTAL AGENCIES

Included in fees and grants from governmental agencies is $34,278,771 in 2013 and $27,592,155 in 2012 of revenue received from the Illinois Department of Children and Family Services. In addition, the Society received revenue of $9,111,526 in 2013 and $8,254,443 in 2012 from the Illinois Department of Human Services. The amount of revenue from these funding sources represents approximately 69% of the Agency's total operating revenue and support for each of the years ended June 30, 2013 and 2012.

As of June 30, 2013 and 2012, the Agency's gross accounts receivable includes amounts due from the Illinois Department of Children and Family Services and the Illinois Department of Human Services of $3,942,031 and $4,271,829, respectively. A summary of unrestricted governmental agency revenue received, by core service, is presented below:

	2013	2012
Adoption	$ 3,384	$ 73,574
Counseling	1,721,875	2,115,454
Child care	7,750,718	7,760,796
Child care resource and referral	2,687,687	2,596,434
Foster care	24,151,097	18,321,248
Intact family services	4,230,917	2,433,561
Parental support	1,960,074	1,737,511
Residential services	5,479,298	5,446,491
Youth services	6,452,400	6,749,332
Other	4,801	-
Total	$ 54,442,251	$ 47,234,401

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following:

	2013	2012
Note payable to the Illinois Facilities Fund with interest only payments due monthly at a rate of 5%. The loan was secured by a second mortgage of the property and was paid in full during the year ended June 30, 2013.	$ -	$ 246,982
Note payable to the Illinois Facilities Fund as a fully amortized mortgage with interest at 5.875%. The loan requires monthly principal and interest payments of $12,557, and is secured by a mortgage of the property and assignment of rents recorded against the property, maturing July 2025.	1,295,323	1,367,584
Total long-term debt	$ 1,295,323	$ 1,614,566

Principal maturities of long-term debt are as follows:

Years Ending June 30,	
2014	$ 76,623
2015	81,247
2016	86,151
2017	91,351
2018	96,865
Thereafter	863,086
Total	$ 1,295,323

NOTE 9 - CAPITAL LEASE OBLIGATION

During the year ended June 30, 2012, the Agency financed the purchase of new copiers totaling $478,715 through a capital lease obligation which expires in 2016. These new copiers are included in office furniture and equipment. Accumulated depreciation for equipment under the capital lease was $191,486 at June 30, 2013.

NOTE 9 - CAPITAL LEASE OBLIGATION (continued)

Future minimum lease payments under the Agency's capital lease are as follows:

Years Ending June 30,

2014	$ 154,861
2015	139,584
2016	139,584
Total minimum lease payments	434,029
Less amounts representing interest	(88,245)
Present value of minimum lease payments	$ 345,784

NOTE 10 - CREDIT FACILITY

The Agency has a credit facility ($5,000,000 as of June 30, 2013 and 2012) with a commercial bank which expires on September 1, 2014. Amounts drawn against the facility bear interest at the commercial bank's prime interest rate less 0.5% (3.25% and 2.75% at June 30, 2013 and 2012, respectively). At June 30, 2013 and 2012, there were no outstanding balances under this credit facility. The facility contains certain restrictive covenants related to financial performance and debt limitations. It is secured by cash and investments with a market value of approximately $12,900,000 and $6,800,000 at June 30, 2013 and 2012, respectively. The Agency pledged a portion of this credit facility as security on two letters of credit (see Note 14).

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following programs and purposes as directed by the donors as of June 30:

	2013	2012
Rice - residential treatment center	$ 69,962	$ 130,156
Community schools	44,880	81,600
Comprehensive fundraising campaign	1,257,268	-
Unappropriated earnings on permanently restricted endowments	2,529,962	2,297,831
Time restriction not expired	75,549	178,308
Other	150,159	126,859
Total	$ 4,127,780	$ 2,814,754

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent donor-restricted investments to be held in perpetuity. Each year, the trustees of the investments appropriate a portion of the income therefrom to support program services. The remaining income is classified as temporarily restricted net assets.

Permanently restricted net assets are included in donor-restricted cash and investments, beneficial interest in trusts, and other cash and cash equivalents on the Consolidated Statements of Financial Position.

Permanently restricted net assets consist of the following:

	2013	2012
Donor-restricted endowment funds	$ 2,547,907	$ 2,434,625
Beneficial interest in trusts	4,557,422	1,467,166
Other donor restricted	45,367	45,367
Total	$ 7,150,696	$ 3,947,158

NOTE 13 - ENDOWMENTS

The Agency's endowments consist of three donor-restricted funds and the Agency's board-designated fund. The donor-restricted funds have been established to support various programs of the Agency. Net assets associated with the endowment funds are classified and reported based on the existence of any donor-imposed restrictions.

Interpretation of Relevant Law

The Agency has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of any donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

Return Objectives and Risk Parameters

The Agency has adopted investment and distribution policies for endowment investments that attempt to enhance their real value. The intent is to earn a high rate of return while maintaining a balanced portfolio relative to risk.

NOTE 13 - ENDOWMENTS (continued)

Distribution Policy

The Agency's distribution policy for endowment investments includes board approvals of amounts to be distributed to the Agency's programs during each fiscal year.

Strategies Employed for Achieving Objectives

The Agency's investment strategy is to achieve a target allocation of 50% of the endowment in direct equity investments including United States and international investments, 35% in partnerships and hedge funds, and 15% in fixed-income securities.

Endowment net asset composition by type of fund as of June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,529,962	$ 2,547,907	$ 5,077,869
Board-designated endowment funds	14,569,471	-	-	14,569,471
Total funds	$14,569,471	$ 2,529,962	$ 2,547,907	$ 19,647,340

Changes in endowment net assets for the fiscal year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 8,794,458	$ 2,297,831	$ 2,434,625	$ 13,526,914
Investment return:				
Investment income, net of fees	75,008	85,551	-	160,559
Realized and unrealized gains	1,202,867	367,580	-	1,570,447
Total investment return	1,277,875	453,131	-	1,731,006
Contributions to endowment	5,000,000	-	82,694	5,082,694
Acquisition of The Youth Campus	-	-	30,588	30,588
Appropriation of endowment assets for expenditure	(502,862)	(221,000)	-	(723,862)
Net assets, end of year	$ 14,569,471	$ 2,529,962	$ 2,547,907	$ 19,647,340

NOTE 13 - ENDOWMENTS (continued)

Endowment net asset composition by type of fund as of June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,297,831	$ 2,434,625	$ 4,732,456
Board-designated endowment funds	8,794,458	-	-	8,794,458
Total funds	$ 8,794,458	$ 2,297,831	$ 2,434,625	$ 13,526,914

Changes in endowment net assets for the fiscal year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 9,107,165	$ 2,622,398	$ 2,434,625	$ 14,164,188
Investment return:				
Investment income, net of fees	82,912	69,172	-	152,084
Realized and unrealized losses	(182,463)	(208,739)	-	(391,202)
Total investment return	(99,551)	(139,567)	-	(239,118)
Contributions to endowment	-	-	-	-
Appropriation of endowment assets for expenditure	(213,156)	(185,000)	-	(398,156)
Net assets, end of year	$ 8,794,458	$ 2,297,831	$ 2,434,625	$ 13,526,914

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Agency maintains an operating lease agreement for its principal administrative offices that expires in January 2022. The terms of the agreement provide for an abatement of rental payments, along with sharing of operation and maintenance costs. Rental expense is recorded on a straight-line basis over the life of the lease term. The excess of rental expense recognized over rental payments is included in "Accounts payable and accrued expenses" on the Consolidated Statements of Financial Position. The Agency also maintains operating lease agreements at various other locations throughout the State of Illinois for the use of land and buildings. Rental expense recognized under these operating leases was $1,296,824 and $1,118,343 in 2013 and 2012, respectively.

Future minimum rental payments over the remainder of operating lease terms are as follows:

Years Ending June 30,

2014	$ 1,497,421
2015	1,027,678
2016	847,895
2017	873,527
2018	899,589
2019 and thereafter	1,953,018
Total future minimum lease payments	$ 7,099,128

Letters of Credit

One of the Agency's banks issued, on behalf of the Agency, two irrevocable standby letters of credit in the amounts of $750,000 and $200,000. The first is in favor of 100 North Western Avenue, L.P. that automatically renews on September 1 of each year through 2019 and pertains to leased space at 100 North Western Avenue, Chicago, Illinois. The second is in favor of Metropolitan Life Insurance and pertains to 125 South Wacker Drive, Chicago, Illinois and automatically renews each February through 2017. These letters of credit act as a security deposit for the Agency's lease of space and would be applied by the beneficiary for the purpose of curing any amount of default on the lease by the Agency. The combined, unamortized balance of these letters of credit was $628,550 and $698,700 as of June 30, 2013 and 2012, respectively. The letters of credit are payable in the amount of the remaining balance if drawn upon.

NOTE 14 - COMMITMENTS AND CONTINGENCIES (continued)

Litigation

The Agency is named in various lawsuits arising in the ordinary course of business. The ultimate resolution of these lawsuits, including any related financial effects on the Agency, is currently unknown. The Agency has not provided for any potential future losses arising from the resolution of these matters in the accompanying consolidated financial statements. Despite the inherent uncertainties of litigation, management does not believe that the lawsuits will have a material adverse impact on the financial condition of the Agency at this time.

State Funding

The Agency receives a significant portion of its revenues and other support from agencies of the State of Illinois. Payments for the Agency's programs funded by the State of Illinois may be subject to modification based on the amount of funding made available by the State. Should such funding modifications occur, they could have an adverse effect on the Agency's revenue and other support.

Compliance with Grant Restrictions

The state and federal grants received by the Agency are subject to audit. Management believes that any disallowance of expenditures under these grants would not be material.

NOTE 15 - SUBSEQUENT EVENTS

Management evaluated subsequent events through November 5, 2013, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to November 5, 2013 that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the consolidated financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2013.