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

## CONSOLIDATED FINANCIAL STATEMENTS
**June 30, 2014 and 2013**

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, 2014 and 2013, 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.

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

***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, 2014 and 2013, 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 September 16, 2014, 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
September 16, 2014

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**June 30, 2014 and 2013**

## ASSETS

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 1,874,128 | $ 3,899,485 |
| Accounts receivable, net of allowance for doubtful accounts of $150,000 and $147,615 in 2014 and 2013, respectively | 5,969,777 | 5,578,712 |
| Pledges receivable | 1,099,863 | 576,616 |
| Prepaid expenses and other assets | 582,022 | 419,627 |
| Other investment | 1,000,000 | 1,000,000 |
| Board-designated assets for investment and deferred compensation plan | 17,845,703 | 14,569,471 |
| Donor-restricted cash and investments | 5,494,000 | 4,964,588 |
| Beneficial interest in trusts | 5,043,599 | 4,557,422 |
| Land, buildings, equipment, and leasehold improvements, net of accumulated depreciation and amortization | 18,754,358 | 17,379,010 |
| **TOTAL ASSETS** | $ 57,663,450 | $ 52,944,931 |

## LIABILITIES AND NET ASSETS

| | 2014 | 2013 |
|---|---|---|
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 2,561,795 | $ 2,898,866 |
| Accrued salaries, wages, paid leave, pension, and payroll taxes | 3,986,754 | 3,664,232 |
| Deferred compensation | 406,909 | 275,000 |
| Deferred revenue | 1,065,841 | 1,705,085 |
| Capital lease obligation | 240,353 | 345,784 |
| Construction credit facility | 390,500 | - |
| Long-term debt | 1,218,700 | 1,295,323 |
| Total liabilities | 9,870,852 | 10,184,290 |
| **NET ASSETS** | | |
| Unrestricted | 33,619,453 | 31,482,166 |
| Temporarily restricted | 6,492,137 | 4,127,780 |
| Permanently restricted | 7,681,008 | 7,150,695 |
| Total net assets | 47,792,598 | 42,760,641 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 57,663,450 | $ 52,944,931 |

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, 2014 and 2013**

| | 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **REVENUES AND OTHER SUPPORT** | | | | |
| Contributions | $ 4,226,536 | $ 777,719 | $ 39,064 | $ 5,043,319 |
| Foundations and trusts | 803,227 | - | - | 803,227 |
| Contributions from associated fundraising organizations | 1,159,105 | - | - | 1,159,105 |
| Fees and grants from governmental agencies for services rendered to clients | 56,975,645 | - | - | 56,975,645 |
| Program service fees | 1,303,829 | - | - | 1,303,829 |
| Investment income | 106,684 | 51,202 | - | 157,886 |
| Net assets released from time and purpose restrictions and other reclassifications | 1,328,902 | (703,440) | - | 625,462 |
| Miscellaneous | 164,963 | - | - | 164,963 |
| Total revenues and other support | 66,068,891 | 125,481 | 39,064 | 66,233,436 |
| **EXPENSES** | | | | |
| Total program services | 56,506,611 | - | - | 56,506,611 |
| Supporting services: | | | | |
| Management and general | 7,760,591 | - | - | 7,760,591 |
| Fundraising | 2,023,322 | - | - | 2,023,322 |
| Total expenses | 66,290,524 | - | - | 66,290,524 |
| Income (loss) from operations | (221,633) | 125,481 | 39,064 | (57,088) |
| **COMPREHENSIVE FUNDRAISING CAMPAIGN REVENUE** | | | | |
| General public, corporate, and foundation support | - | 2,207,192 | 5,072 | 2,212,264 |
| Net assets released from time and purpose restrictions and other reclassifications | - | (625,462) | - | (625,462) |
| Total comprehensive fundraising campaign revenue | - | 1,581,730 | 5,072 | 1,586,802 |
| **NON-OPERATING GAINS** | | | | |
| Net realized and unrealized gains on investments | 2,358,920 | 657,146 | 486,177 | 3,502,243 |
| **CHANGE IN NET ASSETS** | 2,137,287 | 2,364,357 | 530,313 | 5,031,957 |
| **NET ASSETS, BEGINNING OF YEAR** | 31,482,166 | 4,127,780 | 7,150,695 | 42,760,641 |
| **NET ASSETS, END OF YEAR** | $ 33,619,453 | $ 6,492,137 | $ 7,681,008 | $ 47,792,598 |

| | 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 time and purpose 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 time and purpose 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 |

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, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 5,031,957 | $ 10,448,799 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,335,472 | 1,258,868 |
| Deferred compensation | 131,909 | 110,000 |
| Provision for bad debts | 166,732 | 200,572 |
| Permanently restricted contributions | (44,136) | (82,694) |
| Excess of assets acquired over liabilities assumed in acquisition of The Youth Campus | - | (8,059,880) |
| Net realized and unrealized gains on permanently and temporarily restricted net assets | (1,143,323) | (563,023) |
| Net realized and unrealized gains on assets whose use is limited or restricted, excluding investments of permanently and temporarily restricted net assets | (2,358,920) | (1,202,867) |
| Stock donation | - | (1,000,000) |
| Effects of changes in operating assets and liabilities: | | |
| Accounts receivable | (557,797) | 592,820 |
| Pledges receivable | (523,247) | (320,548) |
| Prepaid expenses and other assets | (162,395) | (79,943) |
| Accounts payable and accrued expenses | (337,071) | (899,942) |
| Accrued salaries, wages, paid leave, pension, and payroll taxes | 322,522 | 341,487 |
| Other liabilities | (639,244) | 596,218 |
| Net cash provided by operating activities | 1,222,459 | 1,339,867 |
| **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 | (2,320,320) | (675,889) |
| Purchases of trustee-held, board-designated, and donor-restricted cash and investments | (12,847,291) | (4,773,049) |
| Sales and maturities of trustee-held, board-designated, and donor-restricted cash and investments | 12,101,849 | 2,331,376 |
| Net cash provided by (used in) investing activities | (3,065,762) | 3,401,812 |

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayment of long-term debt | (76,623) | (2,344,243) |
| Payments on capital lease obligation | (105,431) | (97,284) |
| Net cash provided by (used in) financing activities | (182,054) | (2,441,527) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (2,025,357) | 2,300,152 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 3,899,485 | 1,599,333 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 1,874,128 | $ 3,899,485 |
| **SUPPLEMENTARY DISCLOSURES** | | |
| Schedule of non-cash investing and financing transactions: | | |
| Investing: | | |
| Total capital acquisitions | $ 2,710,820 | $ 7,111,868 |
| Less amount acquired in acquisition of The Youth Campus | - | (6,435,979) |
| Less amount of borrowings on construction line of credit | (390,500) | - |
| **Cash paid for capital acquisitions** | $ 2,320,320 | $ 675,889 |
| Financing: | | |
| Line of credit borrowing used to finance construction | $ 390,500 | $ - |
| **Cash paid for interest** | $ 122,716 | $ 141,192 |

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, 2014**

| | Program Services | | | | | | |
|---|---|---|---|---|---|---|---|
| | Adoption | Counseling | Child Care | Child Care Resource and Referral | Foster Care | Intact Family Services | Parental Support |
| Salaries | $ 61,519 | $ 3,006,141 | $ 5,297,207 | $ 1,562,400 | $ 8,357,333 | $ 2,296,941 | $ 1,367,923 |
| Employee health and retirement benefits | 10,087 | 497,325 | 879,173 | 257,371 | 1,390,596 | 380,930 | 226,900 |
| Payroll taxes | 4,254 | 217,599 | 376,442 | 111,275 | 599,294 | 163,866 | 96,843 |
| Total salaries and related expenses | 75,860 | 3,721,065 | 6,552,822 | 1,931,046 | 10,347,223 | 2,841,737 | 1,691,666 |
| Professional fees | 378 | 40,263 | 182,680 | 303,347 | 640,092 | 414,490 | 261,462 |
| Supplies | 818 | 38,577 | 584,557 | 90,214 | 108,776 | 49,389 | 77,307 |
| Telephone | 6,059 | 103,322 | 187,374 | 52,433 | 371,411 | 128,916 | 55,913 |
| Postage and shipping | 167 | 6,168 | 3,103 | 24,206 | 22,689 | 5,627 | 2,455 |
| Occupancy | 3,621 | 304,088 | 468,954 | 168,123 | 851,715 | 158,591 | 78,158 |
| Outside printing | 49 | 3,060 | 6,699 | 17,121 | 8,991 | 4,349 | 4,169 |
| Local transportation | 2,729 | 191,589 | 42,790 | 28,232 | 895,321 | 232,164 | 48,713 |
| Conferences and meetings | - | 6,943 | 23,969 | 36,881 | 44,870 | 14,673 | 18,572 |
| Subscriptions and reference | - | 34 | 452 | 941 | 310 | 869 | 554 |
| Specific assistance | 451 | 29,479 | 25,590 | 6,773 | 7,370,062 | 105,454 | 44,975 |
| Membership dues | - | 215 | 4,912 | 1,779 | 752 | 42 | 4,424 |
| Repairs, maintenance, and rental | 246 | 18,569 | 25,192 | 9,854 | 57,923 | 19,598 | 8,432 |
| Miscellaneous | 444 | 19,974 | 38,985 | 9,205 | 78,139 | 15,859 | 9,777 |
| Total expenses before depreciation, amortization, interest, and financing fees | 90,822 | 4,483,346 | 8,148,079 | 2,680,155 | 20,798,274 | 3,991,758 | 2,306,577 |
| Depreciation and amortization | 492 | 51,754 | 427,147 | 18,090 | 261,796 | 51,865 | 50,940 |
| Interest and financing fees | 41 | 4,527 | 4,984 | 3,381 | 13,627 | 3,953 | 2,002 |
| **TOTAL FUNCTIONAL EXPENSES** | $ 91,355 | $ 4,539,627 | $ 8,580,210 | $ 2,701,626 | $ 21,073,697 | $ 4,047,576 | $ 2,359,519 |

| | Program Services (continued) | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|
| | Residential Services | Youth Services | Program Services Management | Total Program Services | Management and General | Fundraising | Total Supporting Services | Totals |
| Salaries | $ 3,371,286 | $ 3,210,287 | $ 598,249 | $ 29,129,286 | $ 4,161,840 | $ 1,072,933 | $ 5,234,773 | $ 34,364,059 |
| Employee health and retirement benefits | 510,310 | 543,803 | 100,756 | 4,797,251 | 683,840 | 172,662 | 856,502 | 5,653,753 |
| Payroll taxes | 241,344 | 232,642 | 44,358 | 2,087,917 | 269,802 | 69,630 | 339,432 | 2,427,349 |
| Total salaries and related expenses | 4,122,940 | 3,986,732 | 743,363 | 36,014,454 | 5,115,482 | 1,315,225 | 6,430,707 | 42,445,161 |
| Professional fees | 176,727 | 1,554,867 | 3,217 | 3,577,523 | 969,493 | 193,010 | 1,162,503 | 4,740,026 |
| Supplies | 392,689 | 87,283 | 26,349 | 1,455,959 | 165,466 | 7,624 | 173,090 | 1,629,049 |
| Telephone | 45,469 | 134,414 | 22,485 | 1,107,796 | 139,744 | 3,502 | 143,246 | 1,251,042 |
| Postage and shipping | 1,108 | 6,321 | 729 | 72,573 | 26,179 | 13,704 | 39,883 | 112,456 |
| Occupancy | 242,180 | 234,412 | 35,427 | 2,545,269 | 563,405 | 7,197 | 570,602 | 3,115,871 |
| Outside printing | 1,348 | 4,463 | 1,196 | 51,445 | 27,430 | 96,044 | 123,474 | 174,919 |
| Local transportation | 61,174 | 203,287 | 12,359 | 1,718,358 | 92,188 | 14,991 | 107,179 | 1,825,537 |
| Conferences and meetings | 22,463 | 46,825 | 13,540 | 228,736 | 100,263 | 117,941 | 218,204 | 446,940 |
| Subscriptions and reference | 31 | 571 | 460 | 4,222 | 2,932 | 937 | 3,869 | 8,091 |
| Specific assistance | 71,802 | 292,823 | 6,931 | 7,954,340 | 5,074 | 3,523 | 8,597 | 7,962,937 |
| Membership dues | 1,515 | 164 | 1,286 | 15,089 | 64,184 | 3,075 | 67,259 | 82,348 |
| Repairs, maintenance, and rental | 67,879 | 16,311 | 3,020 | 227,024 | 24,539 | 4,649 | 29,188 | 256,212 |
| Miscellaneous | 25,307 | 35,402 | 20,362 | 253,454 | 288,053 | 240,240 | 528,293 | 781,747 |
| Total expenses before depreciation, amortization, interest, and financing fees | 5,232,632 | 6,603,875 | 890,724 | 55,226,242 | 7,584,432 | 2,021,662 | 9,606,094 | 64,832,336 |
| Depreciation and amortization | 315,935 | 56,749 | 4,840 | 1,239,608 | 94,492 | 1,372 | 95,864 | 1,335,472 |
| Interest and financing fees | 2,775 | 4,565 | 906 | 40,761 | 81,667 | 288 | 81,955 | 122,716 |
| **TOTAL FUNCTIONAL EXPENSES** | $ 5,551,342 | $ 6,665,189 | $ 896,470 | $ 56,506,611 | $ 7,760,591 | $ 2,023,322 | $ 9,783,913 | $ 66,290,524 |

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 FUNCTIONAL 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 FUNCTIONAL 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Children's Home and Aid Society of Illinois (the "Society"), an Illinois nonprofit 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 nonprofit 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 nonprofit 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 nonprofit 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 TYC** | $ 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 Statement of Activities and Changes in Net Assets for the year-end of June 30, 2013.

**Use of Estimates in Preparing Consolidated Financial Statements**

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

**Consolidated Financial Statement Presentation**

The Agency prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, 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.

At times, the amounts in these accounts may exceed federally insured limits. However, the Agency has not experienced any losses on these accounts and does not believe it is exposed to significant risk.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments

The Agency accounts for investments in accordance with accounting principles generally accepted in the United States of America, 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, 2014 and 2013, 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 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 nonprofit 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, 2014 and 2013 there were no liabilities for uncertain tax positions.

The federal and state returns of the Agency for fiscal years ended 2011, 2012, and 2013 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,**

| | |
|---|---|
| 2015 | $ 655,133 |
| 2016 | 362,523 |
| 2017 | 57,160 |
| 2018 | 50,500 |
| 2019 | 11,603 |
| Total pledges receivable | 1,136,919 |
| Less discount to net present value | (37,056) |
| **Total** | $ 1,099,863 |

The discount rate used for the years ended June 30, 2014 and 2013 was 3%.

## NOTE 3 - INVESTMENTS

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

| | 2014 | 2013 |
|---|---|---|
| Fixed income mutual funds | $ 4,491,104 | $ 4,157,795 |
| Equity securities, mutual funds, exchange traded funds, other funds, and partnerships | 14,570,668 | 10,998,635 |
| Alternative assets | 1,104,570 | 787,855 |
| Non-public pooled investments | 3,022,152 | 3,404,007 |
| Cash equivalents and money market funds | 151,209 | 185,767 |
| Beneficial interest in trusts | 5,043,599 | 4,557,422 |
| Other investment | 1,000,000 | 1,000,000 |
| **Total** | $ 29,383,302 | $ 25,091,481 |

**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, 2014 and 2013. The market value for this fund was estimated at $988,935 and $1,049,356 at June 30, 2014 and 2013, respectively. The Agency has (redeemed) invested ($74,450) and $712,148 in the Common Sense limited partnerships as of June 30, 2014 and 2013, respectively. The market value of these funds was $42,544 and $787,684 as of June 30, 2014 and 2013, 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, 2014 and 2013. The market value for this fund was estimated at $1,990,673 and $1,566,967 as of June 30, 2014 and 2013, 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, 2014 and 2013 is as follows:

| | 2014 | 2013 |
|---|---|---|
| Interest and dividend income | $ 157,886 | $ 214,957 |
| Net realized gains on sales | 939,286 | 157,720 |
| Net unrealized gains | 2,562,957 | 1,608,170 |
| **Total** | $ 3,660,129 | $ 1,980,847 |

Investment fees incurred were $96,434 and $68,424 for the years ended June 30, 2014 and 2013, respectively.

## 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:

- 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, 2014 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 | $ 7,062,424 | $ 7,062,424 | $ - | $ - |
| International mutual funds | 5,597,338 | 5,597,338 | - | - |
| Hedge funds | 1,910,906 | 1,910,906 | - | - |
| Fixed income: | | | | |
| Mutual funds | 4,491,104 | - | 4,491,104 | - |
| Alternative assets | 1,104,570 | 1,104,570 | - | - |
| Non-public pooled investments | 3,022,152 | - | - | 3,022,152 |
| Beneficial interest in trusts | 5,043,599 | - | 5,043,599 | - |
| Other investment | 1,000,000 | - | - | 1,000,000 |
| Total assets at fair value | 29,232,093 | $ 15,675,238 | $ 9,534,703 | $ 4,022,152 |
| Cash and cash equivalents | 151,209 | | | |
| **Total assets** | $ 29,383,302 | | | |

**NOTE 4 - FAIR VALUE MEASUREMENTS** (continued)

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 include 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.

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 $988,935, 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.

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 on 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, 2014 and 2013 is $560,512 and $515,757, 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, 2014:

| | |
|---|---|
| Investments: | |
| Balance as of June 30, 2013 | $ 4,404,007 |
| Sale of investments | (942,367) |
| Change in fair value estimate | 560,512 |
| **Balance as of June 30, 2014** | $ 4,022,152 |

**NOTE 4 - FAIR VALUE MEASUREMENTS** (continued)

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 | $ 4,952,599 | $ 4,952,599 | $ - | $ - |
| 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 | - |
| Alternative assets | 787,855 | 787,855 | - | - |
| 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 | | | |

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 5 - LAND, BUILDINGS, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

A summary of land, buildings, equipment, and leasehold improvements as of June 30, 2014 and 2013 follows:

| | 2014 | 2013 |
|---|---|---|
| Land | $ 823,473 | $ 823,473 |
| Buildings and improvements | 23,785,107 | 23,735,419 |
| Office furniture and equipment | 4,476,411 | 3,823,352 |
| Automobiles | 130,879 | 112,485 |
| Leasehold improvements | 321,909 | 137,174 |
| Construction in progress | 1,972,266 | 173,605 |
| Total, at cost | 31,510,045 | 28,805,508 |
| Less allowance for depreciation and amortization | 12,755,687 | 11,426,498 |
| **Total land, buildings, equipment, and leasehold improvements** | $ 18,754,358 | $ 17,379,010 |

During the year ended June 30, 2014, the Agency began construction of a new child and family center in Carpentersville, Illinois. This $10,000,000 facility, which is scheduled to open Summer 2015, will more than double the Agency's early childhood learning capacity in the community. Expenditures on this facility during the year ended June 30, 2014 were $1,836,000. Sources of funding for the facility are a $5,000,000 grant from the state of Illinois; contributions and grants from individuals, foundations and corporations; and a mortgage loan secured by the property.

## 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 $351,344 and $241,741 in 2014 and 2013, 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, 2014 and 2013. In addition, the Agency allocates appreciation or depreciation to the plan based on the investment performance of the Foundation assets. This amounted to $56,909 and $35,000 of appreciation for the years ended June 30, 2014 and 2013, 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 $434,000 and $392,000 as of June 30, 2014 and 2013 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 $1,003,000 and $1,002,000 as of June 30, 2014 and 2013, 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 $36,196,071 in 2014 and $34,278,771 in 2013 of revenue received from the Illinois Department of Children and Family Services. In addition, the Society received revenue of $8,940,416 in 2014 and $9,111,526 in 2013 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, 2014 and 2013.

As of June 30, 2014 and 2013, 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 $4,690,560 and $3,942,031, respectively. A summary of unrestricted governmental agency revenue received, by core service, is presented below:

| | 2014 | 2013 |
|---|---|---|
| Adoption | $ 8,676 | $ 3,384 |
| Counseling | 2,324,821 | 1,721,875 |
| Child care | 7,607,814 | 7,750,718 |
| Child care resource and referral | 3,009,911 | 2,687,687 |
| Foster care | 24,407,745 | 24,151,097 |
| Intact family services | 4,877,275 | 4,230,917 |
| Parental support | 1,980,802 | 1,960,074 |
| Residential services | 5,237,129 | 5,479,298 |
| Youth services | 6,074,311 | 6,452,400 |
| Other | 1,447,161 | 4,801 |
| **Total** | $ 56,975,645 | $ 54,442,251 |

## NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following:

| | 2014 | 2013 |
|---|---|---|
| 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 in July 2025. | $ 1,218,700 | $ 1,295,323 |

Principal maturities of long-term debt are as follows:

| Years Ending June 30, | |
|---|---|
| 2015 | $ 81,247 |
| 2016 | 86,151 |
| 2017 | 91,351 |
| 2018 | 96,865 |
| 2019 | 102,711 |
| Thereafter | 760,375 |
| **Total** | $ 1,218,700 |

## 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 $287,729 and $191,486 at June 30, 2014 and 2013, respectively.

## NOTE 9 - CAPITAL LEASE OBLIGATION (continued)

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

**Years Ending June 30,**

| | |
|---|---|
| 2015 | $ 142,284 |
| 2016 | 139,584 |
| Total minimum lease payments | 281,868 |
| Less amounts representing interest | (41,515) |
| **Present value of minimum lease payments** | $ 240,353 |

## NOTE 10 - CREDIT FACILITIES

The Agency has a credit facility ($5,000,000 as of June 30, 2014 and 2013) with a commercial bank which expires on September 1, 2014. The credit facility has been renewed through September 1, 2015 with the same terms. Amounts drawn against the facility bear interest at the commercial bank's prime interest rate less 0.5% (3.25% and 3.25% at June 30, 2014 and 2013, respectively). At June 30, 2014 and 2013, 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 $20,300,000 and $12,900,000 at June 30, 2014 and 2013, respectively. The Agency pledged a portion of this credit facility as security on two letters of credit (see Note 14).

In conjunction with the construction of the new Carpentersville Child & Family Center, the Agency secured a $6 million construction credit facility with a commercial bank which expires on October 31, 2015. Amounts drawn against this facility bear interest at a one-month London Interbank Offered Rate plus 2.5% (2.65% at June 30, 2014). At June 30, 2014, the outstanding balance under this credit facility was $390,500. 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 $20,300,000 at June 30, 2014. Upon completion of the Center, this debt will be reduced by a combination of donor contribution and a traditional mortgage. In addition to the construction credit line, the Agency was required to post a performance letter of credit in the amount of $260,937 with the Village of Carpentersville as beneficiary. This letter of credit expires on June 1, 2015. The Village of Carpentersville may draw upon it if work covered by the commitment is not completed.

## 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:

| | 2014 | 2013 |
|---|---|---|
| Rice - residential treatment center | $ 85,645 | $ 69,962 |
| Community schools | 59,031 | 44,880 |
| Comprehensive fundraising campaign | 2,838,998 | 1,257,268 |
| Unappropriated earnings on permanently restricted endowments | 3,020,310 | 2,529,962 |
| Time restriction not expired | 29,007 | 75,549 |
| Workforce development | 175,000 | - |
| Other | 284,146 | 150,159 |
| **Total** | $ 6,492,137 | $ 4,127,780 |

## 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 from there 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:

| | 2014 | 2013 |
|---|---|---|
| Donor-restricted endowment funds | $ 2,592,043 | $ 2,547,907 |
| Beneficial interest in trusts | 5,043,599 | 4,557,422 |
| Other donor restricted | 45,366 | 45,366 |
| **Total** | $ 7,681,008 | $ 7,150,695 |

## 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 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.

### 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, 2014 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 3,020,310 | $ 2,592,043 | $ 5,612,353 |
| Board-designated endowment funds | 17,845,703 | - | - | 17,845,703 |
| **Total funds** | $17,845,703 | $ 3,020,310 | $ 2,592,043 | $ 23,458,056 |

**NOTE 13 - ENDOWMENTS** (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2014 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Net assets, beginning of year | $ 14,569,471 | $ 2,529,962 | $ 2,547,907 | $ 19,647,340 |
| Investment return: | | | | |
| Investment income, net of fees | 17,581 | 51,202 | - | 68,783 |
| Realized and unrealized gains | 2,358,920 | 657,146 | - | 3,016,066 |
| Total investment return | 2,376,501 | 708,348 | - | 3,084,849 |
| Contributions to endowment | 2,207,193 | - | 44,136 | 2,251,329 |
| Appropriation of endowment assets for expenditure | (1,307,462) | (218,000) | - | (1,525,462) |
| **Net assets, end of year** | $ 17,845,703 | $ 3,020,310 | $ 2,592,043 | $ 23,458,056 |

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 |

**NOTE 13 - ENDOWMENTS** (continued)

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 TYC | - | - | 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 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 $1,458,192 and $1,543,131 in 2014 and 2013, respectively.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES** (continued)

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

**Years Ending June 30,**

| | |
|---|---|
| 2015 | $ 1,462,788 |
| 2016 | 1,298,282 |
| 2017 | 1,293,064 |
| 2018 | 1,269,699 |
| 2019 | 1,280,195 |
| 2020 and thereafter | 4,546,361 |
| **Total future minimum lease payments** | $ 11,150,389 |

**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 that 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 $521,400 and $628,550 as of June 30, 2014 and 2013, respectively. The letters of credit are payable in the amount of the remaining balance if drawn upon.

**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.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES (continued)

### 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 September 16, 2014, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to September 16, 2014 that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the consolidated financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, 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, 2014.