

ILLINOIS ACTION FOR CHILDREN
(An Illinois Not-For-Profit Corporation)

FINANCIAL STATEMENTS
(Including Single Audit)

Year Ended June 30, 2014

With Summarized Financial Information for June 30, 2013

ILLINOIS ACTION FOR CHILDREN
Chicago, Illinois

FINANCIAL STATEMENTS
Year Ended June 30, 2014
With Summarized Financial Information for June 30, 2013

CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7
SINGLE AUDIT	
Schedule of Expenditures of Federal Awards.....	16
Notes to the Schedule of Expenditures of Federal Awards.....	17
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Independent Auditor's Report on Compliance For the Major Federal Program and Report on Internal Control Over Compliance	21
Schedule of Findings and Questioned Costs.....	23

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Illinois Action For Children
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Illinois Action for Children (an Illinois Not-For-Profit Corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Action for Children as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Illinois Action for Children's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 31, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
January 27, 2015

ILLINOIS ACTION FOR CHILDREN
STATEMENT OF FINANCIAL POSITION
June 30, 2014
(With Summarized Financial Information for June 30, 2013)

	Unrestricted	Temporarily Restricted	Total	
			2014	2013
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 693,115	\$ 300,277	\$ 993,392	\$ 437,584
Grants and Contracts Receivable	3,498,953	969,000	4,467,953	5,017,688
Prepaid Expenses	25,116	-	25,116	3,990
Endowment Fund Investments	<u>2,283,081</u>	<u>-</u>	<u>2,283,081</u>	<u>2,011,016</u>
Total Current Assets	<u>6,500,265</u>	<u>1,269,277</u>	<u>7,769,542</u>	<u>7,470,278</u>
Noncurrent Assets				
Lease Security Deposits	125,078	-	125,078	105,078
Property, Plant, & Equipment	372,176	4,568,418	4,940,594	4,790,038
Less: Accumulated Depreciation	<u>(368,578)</u>	<u>(4,150,780)</u>	<u>(4,519,358)</u>	<u>(4,283,014)</u>
Net Property, Plant, & Equipment	<u>3,598</u>	<u>417,638</u>	<u>421,236</u>	<u>507,024</u>
Total Noncurrent Assets	<u>128,676</u>	<u>417,638</u>	<u>546,314</u>	<u>612,102</u>
Total Assets	<u>\$ 6,628,941</u>	<u>\$ 1,686,915</u>	<u>\$ 8,315,856</u>	<u>\$ 8,082,380</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Cash Overdraft	\$ -	\$ -	\$ -	\$ 536,560
Accounts Payable	1,826,277	-	1,826,277	2,065,673
Accrued Expenses	1,540,509	-	1,540,509	1,341,157
Notes Payable	750,000	-	750,000	47,883
Refundable Advances	<u>7,677</u>	<u>-</u>	<u>7,677</u>	<u>285,098</u>
Total Current Liabilities	4,124,463	-	4,124,463	4,276,371
Deferred Lease Incentive	<u>428,164</u>	<u>-</u>	<u>428,164</u>	<u>518,813</u>
Net Assets				
Designated for Specific Use by the Governing Board:				
Endowment Fund	2,283,081	-	2,283,081	2,011,016
Undesignated	<u>(206,767)</u>	<u>1,686,915</u>	<u>1,480,148</u>	<u>1,276,180</u>
Total Net Assets	<u>2,076,314</u>	<u>1,686,915</u>	<u>3,763,229</u>	<u>3,287,196</u>
Total Liabilities And Net Assets	<u>\$ 6,628,941</u>	<u>\$ 1,686,915</u>	<u>\$ 8,315,856</u>	<u>\$ 8,082,380</u>

See accompanying notes to financial statements.

ILLINOIS ACTION FOR CHILDREN
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014
(With Summarized Financial Information for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Total	
			2014	2013
Support And Revenue				
Support				
Grants	\$ 745,733	\$ 1,170,550	\$ 1,916,283	\$ 1,586,681
United Way - Membership	75,826	-	75,826	264
Contributions - Other	238,130	-	238,130	255,554
Total Support	1,059,689	1,170,550	2,230,239	1,842,499
Revenue				
Government Contracts	34,153,037	149,162	34,302,199	32,317,030
Corporate Contracts	36,809	-	36,809	36,140
Conferences and Forums	24,725	-	24,725	29,128
Service Fees	12,175	-	12,175	14,960
Membership Dues	11,647	-	11,647	-
Interest Income, Net of Fees	66	-	66	70
Dividends and Capital Gains Income	82,807	-	82,807	81,301
Unrealized Gain (Loss) on Investments	189,258	-	189,258	113,412
Miscellaneous Income	29,434	-	29,434	43,243
Net Assets Released from Restrictions				
Expiration of Time and Purpose Restrictions	1,103,824	(1,103,824)	-	-
Total Revenue	35,643,782	(954,662)	34,689,120	32,635,284
Total Support And Revenue	36,703,471	215,888	36,919,359	34,477,783
Expenses				
Program Services				
Parent Services	810,229	-	810,229	781,271
Provider Services	16,516,079	-	16,516,079	15,502,443
Certificate	14,846,313	-	14,846,313	13,837,478
Public Policy and Advocacy	675,874	-	675,874	753,608
Supporting Services				
Management and General	3,498,351	-	3,498,351	3,604,786
Fundraising/Marketing/Outreach	96,480	-	96,480	114,777
Total Expenses	36,443,326	-	36,443,326	34,594,363
Changes In Net Assets	260,145	215,888	476,033	(116,580)
Net Assets - Beginning Of Year	1,816,169	1,471,027	3,287,196	3,403,776
Net Assets - End Of Year	\$ 2,076,314	\$ 1,686,915	\$ 3,763,229	\$ 3,287,196

See accompanying notes to financial statements.

ILLINOIS ACTION FOR CHILDREN
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014
(With Summarized Financial Information for the Year Ended June 30, 2013)

EXPENSES	Program Services				Supporting Services			Total		
	Parent Services	Provider Services	Certificate	Public Policy and Advocacy	Total Program Services	Management and General	Fund Raising/Marketing/Outreach	Total Supporting Services	2014	2013
Salaries	\$ 509,160	\$ 5,768,671	\$ 9,809,140	\$ 439,771	\$ 16,526,742	\$ 1,801,482	\$ 24,332	\$ 1,825,814	\$ 18,352,556	\$ 16,886,033
Payroll Taxes	40,448	450,939	810,266	33,912	1,335,565	122,127	2,043	124,170	1,459,735	1,282,614
Fringe Benefits	98,272	1,087,987	2,048,090	68,671	3,303,020	256,098	3,474	259,572	3,562,592	3,316,440
Presenters	-	192,764	50	807	193,621	-	-	-	193,621	227,870
Office Supplies and Expenses	22,906	364,970	190,627	10,024	588,527	156,176	3,580	159,756	748,283	731,773
Printing and Promotion	40,572	1,500	525	1,843	44,440	9,855	-	9,855	54,295	47,834
Telephone	8,001	102,982	161,971	5,746	278,700	28,450	382	28,832	307,532	309,014
Occupancy	62,484	407,806	1,258,283	21,765	1,750,338	119,480	2,096	121,576	1,871,914	1,901,947
Equipment Rental and Maintenance	8,645	72,621	233,899	3,938	319,103	135,427	294	135,721	454,824	272,401
Equipment Purchase	-	5,021	7,873	-	12,894	4,398	-	4,398	17,292	81,888
Professional and Outside Services	5,420	481,382	148,498	8,645	643,945	527,644	3,632	531,276	1,175,221	747,429
Program Improvement Grants	-	-	-	-	-	-	-	-	-	175
Postage	7,019	36,541	138,337	59	181,956	8,904	438	9,342	191,298	236,271
Travel and Lodging	2,837	135,262	10,273	36,571	184,943	33,322	2,398	35,720	220,663	180,664
Subscriptions, Dues, and Publications	250	3,144	436	4,427	8,257	13,113	540	13,653	21,910	18,876
Meetings and Seminars	3,012	162,444	4,669	37,705	207,830	76,096	53,209	129,305	337,135	332,589
General Insurance	1,203	19,991	23,376	1,087	45,657	4,667	62	4,729	50,386	39,775
Subcontractors' Fees	-	1,380,988	-	-	1,380,988	-	-	-	1,380,988	1,661,924
Mini-Grants/Scholarships	-	5,841,066	-	-	5,841,066	-	-	-	5,841,066	5,956,148
Total Before Depreciation	810,229	16,516,079	14,846,313	674,971	32,847,592	3,297,239	96,480	3,393,719	36,241,311	34,231,665
Depreciation Expense	-	-	-	903	903	201,112	-	201,112	202,015	362,698
Total Expenses Before Management And General	810,229	16,516,079	14,846,313	675,874	32,848,495	3,498,351	96,480	3,594,831	36,443,326	34,594,363
Management And General	78,455	962,260	2,198,539	100,769	3,340,023	(3,340,023)	-	(3,340,023)	-	-
Total Expenses	\$ 888,684	\$ 17,478,339	\$ 17,044,852	\$ 776,643	\$ 36,188,518	\$ 158,328	\$ 96,480	\$ 254,808	\$ 36,443,326	\$ 34,594,363

See accompanying notes to financial statements.

ILLINOIS ACTION FOR CHILDREN
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014
(With Summarized Financial Information for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Changes in Net Assets	\$ 476,033	\$ (116,580)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	202,015	362,698
Increase (Decrease) in Deferred Lease Incentive	(90,649)	(74,901)
Unrealized (Gains) Losses on Investments	(189,258)	(113,412)
(Increase) Decrease in Operating Assets:		
Grants and Contracts Receivable	549,735	105,297
Prepaid Expenses	(21,126)	22,048
Other Assets	(20,000)	-
(Decrease) Increase in Operating Liabilities:		
Accounts Payable	(290,865)	(67,692)
Accrued Expenses	199,352	48,928
Refundable Advances	(277,421)	(78,428)
	<u>61,783</u>	<u>204,538</u>
Net Cash Provided By Operating Activities	<u>537,816</u>	<u>87,958</u>
Cash Flows From Investing Activities		
Purchases of Property and Equipment	(64,758)	(95,443)
Purchases of Investments	(997,500)	-
Proceeds from Sale of Investments	997,500	-
Investment Income	(82,807)	(81,303)
	<u>(147,565)</u>	<u>(176,746)</u>
Net Cash Provided Used In Investing Activities	<u>(147,565)</u>	<u>(176,746)</u>
Cash Flows From Financing Activities		
Loan Proceeds (Repayments)	702,117	(452,117)
Cash Overdraft	(536,560)	536,560
	<u>165,557</u>	<u>84,443</u>
Net Cash Provided By Financing Activities	<u>165,557</u>	<u>84,443</u>
Net Increase (Decrease) In Cash And Cash Equivalents	555,808	(4,345)
Cash And Cash Equivalents at Beginning of Year	<u>437,584</u>	<u>441,929</u>
Cash And Cash Equivalents at End of Year	<u>\$ 993,392</u>	<u>\$ 437,584</u>
Non-cash capital and related financing activities		
Capital assets not yet paid and included in accounts payable	<u>\$ 51,469</u>	<u>\$ -</u>

See accompanying notes to financial statements.

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: Illinois Action For Children (the "Corporation"), formerly Action for Children, is a not-for-profit Corporation established under the laws of the State of Illinois. The Corporation is involved in assisting users and providers of child care activities in Cook County. Additionally, the Corporation has a public policy unit addressing child care issues.

Method of Accounting: The financial statements of the Corporation have been prepared on the accrual basis of accounting.

Financial Statement Presentation: In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), the Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

- *Unrestricted net assets* are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* are subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."
- *Permanently restricted net assets* are subject to donor-imposed restrictions which dictate they are to be permanently invested and only the investment income earned on the balance can be used for a specific purpose.

All of the Corporation's assets are unrestricted or temporarily restricted; therefore, no permanently restricted assets have been disclosed.

Contributions received are recognized in the financial statements as unrestricted, temporarily restricted, or permanently restricted support. Such classifications are determined by the existence and/or nature of the restrictions. As restrictions expire, temporarily restricted net assets and support are reclassified to unrestricted net assets and support.

The Corporation has elected to report any current period restrictions that have been met within the same period as unrestricted.

Non-cash contributions that are required to be recognized when received include the use of facilities or utilities, debt forgiveness, marketable securities, and certain specialized services. All such contributions are recorded at their estimated fair value.

The Illinois Department of Human Services (IDHS) allocates federal funding to the Corporation as part of the Child Care Subsidy program. IDHS awards these funds to the beneficiaries (child care providers). The Corporation acts as an agent for IDHS and does not receive or pass through any of these allocated funds. IDHS specifies eligibility criteria and transfers to all who meet those criteria. The Corporation is responsible for determining whether individuals or

(Continued)

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

entities meet those grantor-specified eligibility criteria. In accordance with U.S. GAAP regarding agency transactions, the federal funding allocated to the Corporation is not recognized as a contribution within the statement of activities. This agency transaction of allocated IDHS federal funding totaled \$127,789,688 for the fiscal year ended June 30, 2014.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment occurred during the fiscal year ending June 30, 2014.

Income Tax: The Corporation is a not-for-profit Corporation exempt from federal income tax under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made. Also, the Corporation was determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

The Corporation follows guidance issued by the Financial Accounting Standards Board with respect to accounting for uncertainty in income taxes. The Corporation is generally not subject to federal or state income taxes except for certain income derived from unrelated business activities as defined by the IRC. Any such taxes resulting from unrelated business activities are insignificant to the operations of the Corporation. U.S. GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if the tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2014. The Corporation is no longer subject to examination by U.S. federal taxing authorities or state taxing authorities for years before 2010. The Corporation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Corporation would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Corporation has no amounts accrued for interest or penalties as of June 30, 2014.

Use of Estimates: The presentation of the financial statements in conformity with U.S. 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.

Comparative Information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the corporation's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

(Continued)

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contracts Receivable: Grants and contracts receivable consists of amounts due from grantors and state and local agencies for whom the Corporation contracts with to provide services. These financial statements contain no allowance for doubtful amounts since in management's opinion, all amounts are either fully collectible or potential losses are immaterial. Interest is not charged on receivables.

Capitalization and Depreciation: Leasehold Improvements and furniture and equipment items individually costing \$500 or more are capitalized at cost, while items below this amount and expenditures for maintenance and repairs are expensed.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives. Leasehold improvements are depreciated over the useful life of the asset or the life of the related lease, whichever is shorter. Depreciation expense for the year ended June 30, 2014 was \$202,015.

	<u>Estimated Life</u>	<u>Method</u>
Leasehold Improvements	5 - 15 Years	Straight-Line
Furniture and Equipment	5 - 7 Years	Straight-Line

Contributed property and equipment is recorded at fair value at the date of donation. Donor stipulations regarding how long the contributed assets must be used imply a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all donor stipulated contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as restricted support and released from restriction as depreciated.

Refundable Advances: Refundable advances represent amounts received by the Corporation under government contracts for activities that have not yet taken place and therefore the earnings process has not been completed.

Deferred Lease Incentive: Deferred lease incentive liability accounts for the difference between recognizing rent expense on a straight line basis versus a cash outflow basis.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

For the purpose of the statement of cash flows, the Corporation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Corporation maintains cash balances at a financial institution. In the case of deposits, this is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. As of June 30, 2014, the Corporation had \$1,926,674 of cash exposed to custodial credit risk because it was uninsured.

(Continued)

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The Corporation maintains accounts with a brokerage firm. The accounts contain cash and securities. Balances are insured up to \$250,000 (with a limit of \$100,000 for cash) by the Security Investor Protection Corporation (SIPC). The brokerage firm provides limited supplementary coverage for balances that exceed SIPC limits. The Corporation has not experienced any losses in the account. The Corporation believes it is not exposed to any significant credit risk on cash, cash equivalents, and investments.

Investments held by Illinois Action For Children, which are presented at fair value, are invested in money markets, bond mutual funds and stock mutual funds and the approximate breakdown at June 30, 2014 is as follows:

Investments	
Money market	\$ 52,285
Mutual funds	<u>2,230,796</u>
Total	<u>\$ 2,283,081</u>

Investments - Reconciliation to Statement of Financial Position:	
Endowment Fund Investments	<u>\$ 2,283,081</u>
Total	<u>\$ 2,283,081</u>

Investment income at June 30, 2014 is as follows:

Dividends and capital gains income	\$ 82,807
Unrealized gain on investments	189,258
Interest income, net of fees	<u>66</u>
Total	<u>\$ 272,131</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Corporation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

(Continued)

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair values of bond and stock mutual fund investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The fair values of money market accounts are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (Level 2 inputs, market approach).

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2014 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Investments			
Money market	\$ -	\$ 52,285	\$ -
Mutual funds	2,230,796	-	-
Total	<u>\$ 2,230,796</u>	<u>\$ 52,285</u>	<u>\$ -</u>

(Continued)

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 4 - BOARD DESIGNATED UNRESTRICTED NET ASSETS

The Corporation's endowment consists of funds designated by the Board of Directors.

As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As of June 30, 2014, the Corporation's endowment had no donor-imposed restrictions.

Endowment net asset composition by type of fund as of June 30, 2014:

	<u>Unrestricted</u>
Board-designated funds	\$ 2,283,081
Total funds	\$ <u>2,283,081</u>

Changes in endowment net assets for year ended June 30, 2014:

	<u>Unrestricted</u>
Net assets, beginning of year	\$ 2,011,016
Investment return:	
Investment income, net of fees	82,807
Unrealized gain	<u>189,258</u>
Net assets, end of year	\$ <u>2,283,081</u>

Return Objectives and Risk Parameters: The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets that are board-designated funds that the Corporation will maintain as an emergency reserve. Under this policy, the Corporation expects its endowment funds, over time, to provide an average rate of return exceeding the Consumer Price Index by 3% annually and the Lipper Balanced Index by 1% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places an emphasis on liquid securities, defined as securities that be transacted quickly and efficiently for the Endowment, with minimal impact on market price.

(Continued)

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 4 - BOARD DESIGNATED UNRESTRICTED NET ASSETS (Continued)

Spending Policy: The Endowment is a reserve fund accumulated within the Corporation to help insure the continuity of its objectives and programs in the event of alternative funding shortfalls. There are no specific projects or programs that it is reserved for. The Corporation maintains this fund as an emergency reserve for the special activities and initiatives of the organization. Examples would be to provide extra services to teen mothers or support for public policy initiatives. Although the fund is long term in nature, the Corporation may authorize access to its use at any time to support the goals of Corporation. Distributions from the Endowment Fund are made as needed.

NOTE 5 - LEASES

Total rent expense for the year ended June 30, 2014 was \$1,315,784. The Corporation has \$428,164 shown on the statement of financial position related to the deferred lease incentives. The Corporation is presently leasing offices under several lease agreements as follows:

8741 S. Greenwood, Chicago, Illinois 60619: The lease commenced May 1, 2014 and expires July 31, 2019. The office space lease contains periodic lease rent adjustments. Future minimum rentals are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2015	\$ 177,713
2016	182,002
2017	186,391
2018	190,937
2019	195,568
2020	<u>22,124</u>
Total future lease payments	<u>\$ 932,611</u>

1340 South Damen, Chicago, Illinois 60608: The lease commenced May 1, 2007 and expires October 31, 2017. The office space lease contains periodic lease rent adjustments. Future minimum rentals are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2015	\$ 800,307
2016	817,302
2017	834,820
2018	<u>283,256</u>
Total future lease payments	<u>\$ 2,735,685</u>

(Continued)

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 5 – LEASES (Continued)

4753 N. Broadway, Chicago, Illinois 60640: The lease commenced July 1, 2013 and expires June 30, 2018. Future minimum rentals are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2015	\$ 438,923
2016	421,172
2017	387,885
2018	<u>77,577</u>
	<u>\$ 1,325,557</u>

The total of the above future minimal rentals are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2015	\$ 1,239,230
2016	1,238,474
2017	1,222,705
2018	<u>360,833</u>
Total future lease payments	<u>\$ 4,061,242</u>

NOTE 6 - EMPLOYEE 401(k) PLAN

As part of the benefit package, the Corporation has adopted a 401(k) Plan, a defined contribution plan, which covers all eligible employees. Contribution expense to the plan for the year ended June 30, 2014 was \$323,303.

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs which are not directly identifiable have been allocated based on a percentage of direct costs to the respective programs.

NOTE 8 - ECONOMIC DEPENDENCY

The Corporation has a substantial portion of its total support and revenue through the Illinois Department of Human Services. During the fiscal year ended June 30, 2014, the Corporation recognized, through the Illinois Department of Human Services, \$25,012,395 or 68% of total support and revenue.

(Continued)

ILLINOIS ACTION FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE 9 - NOTES PAYABLE

The Corporation has a \$2,500,000 revolving line of credit originally expiring April 10, 2014. This line was extended and is set to expire August 8, 2014. At June 30, 2014, the Corporation had borrowings against the line of credit in the amount of \$750,000. The line is collateralized by a continuing security interest in all business assets and assignment of all grants and monetary awards of the Corporation. Interest varies with the bank's prime rate, which was 6% at June 30, 2014, and is payable monthly. On August 13, 2014 the \$2,500,000 line of credit was renewed, set to expire August 7, 2015.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Corporation participates in federal and state-assisted programs, which are subject to audit to ensure compliance with the grant provisions. Resolution of any legal proceedings or the determination of any questioned or disallowed grant costs is not, in the opinion of management, anticipated to have a material adverse effect on the Corporation's financial statements.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available at June 30, 2014 for the following purposes:

Program activities during subsequent year:	
Provider Services	\$ 303,004
Public Policy and Advocacy	966,282
Restrictions on Equipment	<u>417,629</u>
Total	<u>\$ 1,686,915</u>

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the year ended June 30, 2014 as follows:

Program restrictions accomplished:	
Provider Services	\$ 193,802
Public Policy and Advocacy	710,055
Depreciation on Restricted Equipment	<u>199,967</u>
Total	<u>\$ 1,103,824</u>

NOTE 13 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2014. Management has performed their analysis through January 27, 2015, the date the financial statements were available to be issued.

ILLINOIS ACTION FOR CHILDREN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

	<u>CFDA#</u>	<u>Grantor's Number</u>	<u>Federal Cash Expenditures</u>	<u>Federal Noncash Expenditures</u>	<u>Total Federal Expenditures</u>	<u>Cash Paid to Subrecipients</u>
U.S. Department of Education						
Race To The Top - ELC	84.412	2SAC0000022	\$ 932,910	\$ -	\$ 932,910	\$ 99,537
Government Services Funds:						
Passed Through Chicago Public Schools						
ARRA - General State Aid Government SFSF	84.397A	N/A	<u>511,000</u>	<u>-</u>	<u>511,000</u>	<u>-</u>
Total U.S. Department of Education			1,443,910	-	1,443,910	99,537
U.S. Department of Health and Human Services						
Passed Through Illinois Department of Human Services						
Child Care and Development Block Grant	93.596	281XQ405000	16,827,515	32,904,587	49,732,102	-
Child Care and Development Block Grant-DISC	93.575	281XQ405000	<u>7,219,447</u>	<u>16,420,800</u>	<u>23,640,247</u>	<u>896,365</u>
Subtotal			24,046,962	49,325,387	73,372,349	896,365
Temporary Assistance Needy Families*	93.558	281XQ405000	-	77,755,907	77,755,907	-
Social Services Block Grant	93.667	N/A	<u>-</u>	<u>708,393</u>	<u>708,393</u>	<u>-</u>
Total Illinois Department of Human Services			24,046,962	127,789,688	151,836,649	896,365
Passed Through Chicago Department of Children and Youth Services						
Head Start	93.600	18393-3 & 26002	<u>352,615</u>	<u>-</u>	<u>352,615</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>24,399,577</u>	<u>127,789,688</u>	<u>152,189,264</u>	<u>896,365</u>
U.S. Department of Agriculture						
Passed Through Illinois State Board of Education						
Child & Adult Care Food Program	10.558	4226-00-15016780P00	<u>5,032,406</u>	<u>-</u>	<u>5,032,406</u>	<u>-</u>
U.S. Department of Housing and Urban Development						
Passed Through Chicago Housing Authority						
Child and Family Support Project	14.850	1100	<u>247,313</u>	<u>-</u>	<u>247,313</u>	<u>-</u>
Total Expenditures			<u>\$ 31,123,206</u>	<u>\$ 127,789,688</u>	<u>\$ 158,912,893</u>	<u>\$ 995,902</u>

* Denotes Major Program

See accompanying notes to schedule of expenditures of federal awards.

ILLINOIS ACTION FOR CHILDREN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Illinois Action For Children. The reporting entity is defined in Note 1 to the Illinois Action For Children's financial statements.

Basis of Accounting:

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Illinois Action For Children's financial statements.

Subrecipients:

Of the federal expenditures presented in the schedule, Illinois Action For Children provided the following federal awards to subrecipients:

<u>IDHS - Child Care and Development Block Grant</u>	<u>CFDA# 93.575</u>
Carole Robertson Center	\$ 150,192
Centers for New Horizon	208,702
Children's Home & Aid	192,027
Good Sheperd Center	345,444
Total	<u>\$ 896,365</u>
<u>US Department of Education - Race to the Top</u>	<u>CFDA# 84.412</u>
Third Sector New England	\$ 99,537
Total Subrecipient payments	<u>\$ 995,902</u>

Loans and Loan Guarantees:

There were no federal loans outstanding for the year ended June 30, 2014.

ILLINOIS ACTION FOR CHILDREN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Noncash Expenditures:

The Illinois Department of Human Services (IDHS) allocates federal funding to Illinois Action For Children as part of the Child Care Subsidy program. IDHS awards these funds to the beneficiaries (child care providers). Illinois Action For Children acts as an agent for IDHS and does not receive or pass through any of these allocated funds. IDHS specifies eligibility criteria and transfers to all who meet those criteria. Illinois Action For Children is responsible for determining whether individuals or entities meet those grantor-specified eligibility criteria. In accordance with U.S. GAAP regarding agency transactions, the federal funding allocated to Illinois Action For Children is not recognized as a contribution within Illinois Action For Children's financial statements. Noncash expenditures totaled \$127,789,688 for the fiscal year ended June 30, 2014.

Insurance:

Illinois Action For Children has no federal insurance for the year ended June 30, 2014.

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

To the Board of Directors
Illinois Action For Children
Chicago, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Illinois Action for Children (the "Agency"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
January 27, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors
Illinois Action For Children
Chicago, Illinois

Report on Compliance for the Major Federal Program

We have audited Illinois Action for Children's (the "Agency") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Agency's major federal program for the year ended June 30, 2014. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Agency's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP
Crowe Horwath LLP

Oak Brook, Illinois
January 27, 2015

ILLINOIS ACTION FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified not
considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over major program:

Material weakness(es) identified? Yes No

Significant deficiencies identified not
considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be
reported in accordance with Section .510(a) of
OMB Circular A-133? Yes No

Identification of major program:

CFDA Number _____	Name of Federal Program or Cluster _____
93.558	Department of Health and Human Service: Temporarily Assistance Needy Families

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes No

ILLINOIS ACTION FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2014

Section II - Financial Statement Findings

There were no findings for the year ended June 30, 2014.

Section III - Federal Award Findings

There were no findings for the year ended June 30, 2014.

Section IV - Prior Year Findings and Questioned Costs

There were no findings for the year ended June 30, 2013.