

**INFANT WELFARE SOCIETY
OF CHICAGO**

YEARS ENDED JUNE 30, 2015 AND 2014

INFANT WELFARE SOCIETY OF CHICAGO

YEARS ENDED JUNE 30, 2015 AND 2014

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Independent Auditor's Report

Board of Directors
Infant Welfare Society of Chicago
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the Infant Welfare Society of Chicago (IWS), which comprise the statement of financial position as of June 30, 2015 and 2014 and the related statements of activities, functional expenses and cash flows for the years 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 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 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 the Infant Welfare Society of Chicago as of June 30, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015, on our consideration of IWS'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 IWS's internal control over financial reporting and compliance.

Ostrow Reisin Berk & Abrams, Ltd.

November 17, 2015

INFANT WELFARE SOCIETY OF CHICAGO

STATEMENT OF FINANCIAL POSITION

| June 30, | 2015 | 2014 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents (Note 3) | \$ 2,046,333 | \$ 885,159 |
| Receivables: | | |
| Patient service | 661,650 | 360,195 |
| Grants and contributions (Note 4) | 72,500 | 82,500 |
| Interest | 8,138 | 8,373 |
| Prepaid expenses | 144,587 | 70,194 |
| Investments (Note 5) | 7,727,851 | 8,661,654 |
| Property and equipment, net (Note 6) | 7,985,281 | 8,297,751 |
| Total assets | \$ 18,646,340 | \$ 18,365,826 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 469,670 | \$ 385,997 |
| Due to Illinois Department of Public Aid: | | |
| Overpayment of patient service revenue (Note 10) | 754,674 | |
| Total liabilities | 1,224,344 | 385,997 |
| Net assets: (Notes 7 and 8) | | |
| Unrestricted | 16,184,107 | 16,916,992 |
| Temporarily restricted | 409,835 | 234,783 |
| Permanently restricted | 828,054 | 828,054 |
| Total net assets | 17,421,996 | 17,979,829 |
| Total liabilities and net assets | \$ 18,646,340 | \$ 18,365,826 |

See notes to financial statements.

INFANT WELFARE SOCIETY OF CHICAGO

STATEMENT OF ACTIVITIES

| Years ended June 30, | 2015 | | | | 2014 | | | |
|---|--------------|---------------------------|---------------------------|------------|--------------|---------------------------|---------------------------|------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Public support and revenue: | | | | | | | | |
| Contributions and grants: | | | | | | | | |
| Auxiliary (Note 12) | \$ 604,510 | \$ 122,250 | | \$ 726,760 | \$ 656,169 | | | \$ 656,169 |
| Individuals, corporations and United Way (includes in-kind donations of \$131,153 for 2015 and \$68,444 for 2014) | 241,779 | | | 241,779 | 209,076 | | | 209,076 |
| Foundations | 232,970 | 206,652 | | 439,622 | 284,916 | \$ 206,667 | | 491,583 |
| Government | 796,672 | | | 796,672 | 499,812 | | | 499,812 |
| Patient service revenue (Note 9) | 4,849,346 | | | 4,849,346 | 4,706,623 | | | 4,706,623 |
| Juvenile probation revenue | 569,623 | | | 569,623 | 155,344 | | | 155,344 |
| Interest income on operating accounts | 242 | | | 242 | 153 | | | 153 |
| Board-directed endowment assets designated for current operating activities (Note 8) | 482,439 | | | 482,439 | 586,994 | | | 586,994 |
| Miscellaneous | 18,813 | | | 18,813 | 3,551 | | | 3,551 |
| Net assets released from restrictions (Note 7) | 153,850 | (153,850) | | | 151,197 | (151,197) | | |
| Total public support and revenue | 7,950,244 | 175,052 | | 8,125,296 | 7,253,835 | 55,470 | | 7,309,305 |
| Expenses: | | | | | | | | |
| Program services: | | | | | | | | |
| Pediatric clinic | 3,713,155 | | | 3,713,155 | 2,969,124 | | | 2,969,124 |
| Women's wellness clinic | 1,485,802 | | | 1,485,802 | 1,457,020 | | | 1,457,020 |
| Dental clinic | 1,045,036 | | | 1,045,036 | 978,073 | | | 978,073 |
| Total program services | 6,243,993 | | | 6,243,993 | 5,404,217 | | | 5,404,217 |
| Supporting services: | | | | | | | | |
| Management and general | 1,391,704 | | | 1,391,704 | 1,282,868 | | | 1,282,868 |
| Fundraising | 371,632 | | | 371,632 | 368,794 | | | 368,794 |
| Total supporting services | 1,763,336 | | | 1,763,336 | 1,651,662 | | | 1,651,662 |
| Total expenses | 8,007,329 | | | 8,007,329 | 7,055,879 | | | 7,055,879 |

See notes to financial statements.

INFANT WELFARE SOCIETY OF CHICAGO

STATEMENT OF ACTIVITIES (CONTINUED)

| Years ended June 30, | 2015 | | | | 2014 | | | |
|--|---------------|------------------------|------------------------|---------------|---------------|------------------------|------------------------|---------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Excess (deficiency) of public support and revenue over expenses | \$ (57,085) | \$ 175,052 | | \$ 117,967 | \$ 197,956 | \$ 55,470 | | \$ 253,426 |
| Other changes in net assets: | | | | | | | | |
| Net income (loss) on investments (Note 5) | (27,835) | | | (27,835) | 1,298,857 | 20,564 | | 1,319,421 |
| Board-directed endowment assets designated for current operating activities (Note 8) | (482,439) | | | (482,439) | (586,994) | | | (586,994) |
| Auxiliary support expenses (Note 12) | (165,526) | | | (165,526) | (247,019) | | | (247,019) |
| Total change in net assets | (732,885) | 175,052 | | (557,833) | 662,800 | 76,034 | | 738,834 |
| Net assets, beginning of year | 16,916,992 | 234,783 | \$ 828,054 | 17,979,829 | 16,254,192 | 158,749 | \$ 828,054 | 17,240,995 |
| Net assets, end of year | \$ 16,184,107 | \$ 409,835 | \$ 828,054 | \$ 17,421,996 | \$ 16,916,992 | \$ 234,783 | \$ 828,054 | \$ 17,979,829 |

See notes to financial statements.

INFANT WELFARE SOCIETY OF CHICAGO

STATEMENT OF FUNCTIONAL EXPENSES

| Year ended June 30, 2015 | Program services | | | | Supporting services | | | Total | Auxiliary | Total |
|--|---------------------|-------------------------------|---------------------|---------------------|------------------------------|-------------------|---------------------|---------------------------------------|-------------------|----------------------------|
| | Pediatric clinic | Women's wellness clinic | Dental clinic | Total | Management and general | Fundraising | Total | program and supporting services | support | Total |
| Employee compensation: | | | | | | | | | | |
| Salaries | \$ 2,468,555 | \$ 791,072 | \$ 552,410 | \$ 3,812,037 | \$ 621,256 | \$ 189,537 | \$ 810,793 | \$ 4,622,830 | \$ 110,592 | \$ 4,733,422 |
| Employee health and retirement benefits | 229,382 | 131,753 | 97,986 | 459,121 | 101,953 | 57,478 | 159,431 | 618,552 | 19,058 | 637,610 |
| Payroll taxes | 145,820 | 72,225 | 58,902 | 276,947 | 49,215 | 30,986 | 80,201 | 357,148 | 12,609 | 369,757 |
| Total employee compensation | 2,843,757 | 995,050 | 709,298 | 4,548,105 | 772,424 | 278,001 | 1,050,425 | 5,598,530 | 142,259 | 5,740,789 |
| Professional fees and contract service payments | 363,578 | 200,059 | 159,997 | 723,634 | 360,971 | 29,742 | 390,713 | 1,114,347 | 2,046 | 1,116,393 |
| Supplies | 128,171 | 117,514 | 63,112 | 308,797 | 52,586 | 10,633 | 63,219 | 372,016 | 3,711 | 375,727 |
| Telephone and internet | 17,478 | 8,854 | 6,355 | 32,687 | 6,332 | 3,098 | 9,430 | 42,117 | 1,124 | 43,241 |
| Postage and shipping | 1,354 | 605 | | 1,959 | 9,928 | 265 | 10,193 | 12,152 | 16 | 12,168 |
| Outside printing, artwork and other | 1,509 | 1,509 | 1,751 | 4,769 | 1,258 | 306 | 1,564 | 6,333 | | 6,333 |
| Local transportation | 14,607 | 194 | 55 | 14,856 | 294 | 271 | 565 | 15,421 | | 15,421 |
| Conferences and conventions | 9,239 | 603 | 2,528 | 12,370 | 3,849 | 102 | 3,951 | 16,321 | | 16,321 |
| Dues and subscriptions | 6,619 | 1,535 | 2,606 | 10,760 | 4,890 | 2,075 | 6,965 | 17,725 | | 17,725 |
| Equipment rentals, repairs and maintenance | 45,634 | 22,209 | 21,333 | 89,176 | 79,746 | 7,611 | 87,357 | 176,533 | 2,761 | 179,294 |
| Professional liability insurance | 68,739 | 31,805 | 1,541 | 102,085 | | | | 102,085 | | 102,085 |
| General occupancy | 46,554 | 23,583 | 16,928 | 87,065 | 16,866 | 8,252 | 25,118 | 112,183 | 2,994 | 115,177 |
| Miscellaneous | 4,664 | 597 | 896 | 6,157 | 24,139 | 2,693 | 26,832 | 32,989 | 246 | 33,235 |
| Total expenses before depreciation | 3,551,903 | 1,404,117 | 986,400 | 5,942,420 | 1,333,283 | 343,049 | 1,676,332 | 7,618,752 | 155,157 | 7,773,909 |
| Depreciation | 161,252 | 81,685 | 58,636 | 301,573 | 58,421 | 28,583 | 87,004 | 388,577 | 10,369 | 398,946 |
| Total expenses | \$ 3,713,155 | \$ 1,485,802 | \$ 1,045,036 | \$ 6,243,993 | \$ 1,391,704 | \$ 371,632 | \$ 1,763,336 | \$ 8,007,329 | \$ 165,526 | 8,172,855 |
| Less auxiliary support expenses | | | | | | | | | | <u>(165,526)</u> |
| Total expenses as reported on the statement of activities | | | | | | | | | | <u>\$ 8,007,329</u> |

See notes to financial statements.

INFANT WELFARE SOCIETY OF CHICAGO

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

| Year ended June 30, 2014 | Program services | | | | Supporting services | | | Total program and supporting services | Auxiliary support | Total |
|--|---------------------|-------------------------|-------------------|---------------------|------------------------|-------------------|---------------------|---------------------------------------|-------------------|----------------------------|
| | Pediatric clinic | Women's wellness clinic | Dental clinic | Total | Management and general | Fundraising | Total | | | |
| Employee compensation: | | | | | | | | | | |
| Salaries | \$ 2,051,675 | \$ 792,132 | \$ 516,967 | \$ 3,360,774 | \$ 566,790 | \$ 203,408 | \$ 770,198 | \$ 4,130,972 | \$ 154,465 | \$ 4,285,437 |
| Employee health and retirement benefits | 199,135 | 108,512 | 78,108 | 385,755 | 87,168 | 50,952 | 138,120 | 523,875 | 11,602 | 535,477 |
| Payroll taxes | 132,581 | 65,668 | 53,554 | 251,803 | 44,746 | 28,172 | 72,918 | 324,721 | 11,464 | 336,185 |
| Total employee compensation | 2,383,391 | 966,312 | 648,629 | 3,998,332 | 698,704 | 282,532 | 981,236 | 4,979,568 | 177,531 | 5,157,099 |
| Professional fees and contract service payments | 253,050 | 202,460 | 176,009 | 631,519 | 255,872 | 31,879 | 287,751 | 919,270 | 6,909 | 926,179 |
| Supplies | 77,837 | 122,388 | 53,809 | 254,034 | 44,912 | 9,449 | 54,361 | 308,395 | 11,541 | 319,936 |
| Telephone and internet | 19,563 | 12,650 | 8,052 | 40,265 | 10,250 | 3,746 | 13,996 | 54,261 | 4,500 | 58,761 |
| Postage and shipping | 1,206 | 785 | | 1,991 | 5,446 | 379 | 5,825 | 7,816 | 206 | 8,022 |
| Outside printing, artwork and other | 106 | 55 | | 161 | 433 | | 433 | 594 | | 594 |
| Local transportation | 7,525 | | 286 | 7,811 | 895 | 147 | 1,042 | 8,853 | | 8,853 |
| Conferences and conventions | 7,832 | 1,292 | 1,204 | 10,328 | 2,409 | | 2,409 | 12,737 | 35 | 12,772 |
| Dues and subscriptions | 5,494 | 2,376 | 1,750 | 9,620 | 10,455 | 593 | 11,048 | 20,668 | | 20,668 |
| Equipment rentals, repairs and maintenance | 7,526 | 5,833 | 5,752 | 19,111 | 134,921 | 1,333 | 136,254 | 155,365 | 1,601 | 156,966 |
| Professional liability insurance | 49,094 | 32,354 | 1,346 | 82,794 | | | | 82,794 | | 82,794 |
| General occupancy | 36,028 | 25,252 | 18,727 | 80,007 | 22,500 | 8,713 | 31,213 | 111,220 | 10,465 | 121,685 |
| Miscellaneous | 3,940 | 3,585 | 1,936 | 9,461 | 23,297 | 1,842 | 25,139 | 34,600 | 382 | 34,982 |
| Total expenses before depreciation | 2,852,592 | 1,375,342 | 917,500 | 5,145,434 | 1,210,094 | 340,613 | 1,550,707 | 6,696,141 | 213,170 | 6,909,311 |
| Depreciation | 116,532 | 81,678 | 60,573 | 258,783 | 72,774 | 28,181 | 100,955 | 359,738 | 33,849 | 393,587 |
| Total expenses | \$ 2,969,124 | \$ 1,457,020 | \$ 978,073 | \$ 5,404,217 | \$ 1,282,868 | \$ 368,794 | \$ 1,651,662 | \$ 7,055,879 | \$ 247,019 | 7,302,898 |
| Less auxiliary support expenses | | | | | | | | | | <u>(247,019)</u> |
| Total expenses as reported on the statement of activities | | | | | | | | | | <u>\$ 7,055,879</u> |

See notes to financial statements.

INFANT WELFARE SOCIETY OF CHICAGO

STATEMENT OF CASH FLOWS

| Years ended June 30, | 2015 | 2014 |
|---|--------------|-------------|
| Operating activities: | | |
| Change in net assets | \$ (557,833) | \$ 738,834 |
| Adjustments to reconcile above to cash provided by (used in) operating activities: | | |
| Depreciation | 398,946 | 393,587 |
| Net (gain) loss on investments | 246,520 | (1,118,505) |
| (Increase) decrease in operating assets: | | |
| Receivables | (291,220) | (166,949) |
| Prepaid expenses | (74,393) | 39,510 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 83,673 | (97,221) |
| Due to Illinois Department of Public Aid | 754,674 | |
| Cash provided by (used in) operating activities | 560,367 | (210,744) |
| Investing activities: | | |
| Purchase of investments | (901,205) | (1,207,684) |
| Proceeds from sale or maturity of investments | 1,588,488 | 1,441,134 |
| Purchase of property and equipment | (86,476) | (23,117) |
| Cash provided by investing activities | 600,807 | 210,333 |
| Increase (decrease) in cash and cash equivalents | 1,161,174 | (411) |
| Cash and cash equivalents, beginning of year | 885,159 | 885,570 |
| Cash and cash equivalents, end of year | \$ 2,046,333 | \$ 885,159 |

See notes to financial statements.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Infant Welfare Society of Chicago (IWS) is an Illinois not-for-profit corporation, which provides quality medical services for the healthy, physical and mental development of children and women to give them a foundation for future productive and wholesome lives.

Under one roof, IWS provides well-child care, pediatric dental and optometry, child development support and counseling of children and adolescents with mental health diagnoses. Care of women includes prenatal, family planning and preventive care as well as management of chronic disease. Financial support for IWS is from private foundations, individuals, grants and contracts from the state.

2. Summary of significant accounting policies

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting.

IWS's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activities are classified as unrestricted, temporarily restricted and permanently restricted as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted – Net assets that are subject to donor-imposed restrictions, which will be met either by actions of IWS or the passage of time.

Permanently restricted – Net assets that are subject to donor-imposed restrictions to be permanently maintained by IWS. Generally, the donors of these assets permit IWS to use all or part of the income earned on related investments for general or specific purposes.

Cash equivalents:

For purposes of the statement of cash flows, IWS considers certificates of deposit with maturity dates of three months or less and all money market funds to be cash equivalents.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Public support and revenue:

Public support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue of the unrestricted net asset class. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Contributions, including pledges and certain grants, are recognized in the period in which the unconditional pledge is received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions of land, building and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class.

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. These grants and contracts require IWS to provide certain health care services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend funds allotted under the grants and contracts.

Patient service revenue:

IWS has agreements with third-party payors that provide for payments to IWS at amounts different from its established rates. Payment arrangements include prospectively determined reimbursement rates. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Patient service revenue: (continued)

IWS provides care to self-pay patients on a sliding fee scale. Patients who meet income eligibility requirements receive services without charge or at rates less than the clinic's established rates for services. These services represent charity care and are excluded from net patient service revenue. IWS maintains records to identify and monitor the level of charity care provided, which is measured by the amount of estimated costs incurred to provide these services less any payments received. These costs totaled approximately \$494,000 and \$271,000 for the years ended June 30, 2015 and 2014, respectively.

Patient service receivables:

IWS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Management periodically reviews the accounts receivable reports and writes off balances when they are deemed uncollectible. Realization losses, if any, on amounts receivable at June 30 are not expected to be significant and a provision for uncollectible amounts is not considered necessary.

Investments:

Investments consist of common stocks, mutual funds, U.S. Government obligations, corporate bonds and notes and real estate investment trusts. Investments are stated at fair value. The fair value of investments is generally determined based on quoted market prices or estimated fair value. IWS's investments are exposed to various risks such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statement of financial position. Donated securities are recorded as contributions at their fair value at the date of gift.

Board-directed endowment assets designated for current operating activities:

IWS has adopted the total return method of allocating investment income. In accordance with the investment policy, the Board of Directors authorizes annually an amount to be distributed for expenditures in support of IWS's operating activities. This distribution is based on the average market value of the eligible investments for the past three years. The purpose or amount of any distribution is at the sole discretion of the Board of Directors.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Property and equipment:

Property and equipment are stated on the basis of cost or fair value as of the date of the donation. IWS's policy is to capitalize assets with costs of \$2,500 or more and useful lives of over one year. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

| | Years |
|---------------------------|-------|
| Building and improvements | 40 |
| Furniture and equipment | 5-7 |

Donated services and materials:

IWS records donated services and material received as a contribution and a corresponding expense. The revenues and expenses for the years ended June 30, 2015 and 2014 are reflected at fair value at the date of receipt. Contributed services consist of legal services provided to IWS. These contributed services and materials were valued at approximately \$131,000 and \$68,000 for the years ended June 30, 2015 and 2014, respectively.

A substantial number of individuals and organizations have volunteered their services to IWS. The estimated value of donated services has not been reflected in the financial statements as these services do not require specific expertise.

Income taxes:

IWS has received a tax determination letter from the Internal Revenue Service indicating that IWS is a tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements as IWS has had no significant unrelated business income.

Fair value measurements:

As required by the *Fair Value Measurements and Disclosures* of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, IWS defines fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. The value of all of IWS's assets and liabilities which are required to be carried at fair value are exchange-traded and are, therefore, considered Level 1 assets and liabilities.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Use of estimates:

Management of IWS has made a number of estimates and assumptions relating to the reporting of both assets and liabilities as well as the disclosure of contingent assets and liabilities as of the date of the financial statements and the reporting of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

3. Cash and cash equivalents

Cash and cash equivalents consist of the following:

| June 30, | 2015 | 2014 |
|--------------------|--------------|------------|
| Cash | \$ 1,251,543 | \$ 526,859 |
| Money market funds | 794,790 | 358,300 |
| Total | \$ 2,046,333 | \$ 885,159 |

IWS maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. The cash amounts in bank deposit accounts held in excess of federally-insured limits were approximately \$866,000 and \$364,000 at June 30, 2015 and 2014, respectively. Money market funds held in investment accounts are uninsured. IWS has not experienced any losses in such accounts. Management believes that IWS is not exposed to any significant credit risk on cash and cash equivalents.

4. Grants and contributions receivable

Grants and contributions receivable include unconditional promises to give. Grants and contributions receivable at June 30, 2015 and 2014 are due within one year.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Investments

Investments are composed of the following:

| June 30, | 2015 | 2014 |
|-------------------------------------|------------------|------------------|
| Domestic common stocks: | | |
| Consumer discretionary | \$ 218,582 | \$ 293,223 |
| Consumer staples | 112,300 | 168,106 |
| Energy | 115,962 | 186,277 |
| Financial | 319,272 | 589,623 |
| Health care | 251,818 | 242,658 |
| Industrial goods | 175,089 | 219,536 |
| Information technology | 322,550 | 351,779 |
| Materials | 25,560 | 55,745 |
| Telecommunications | 29,598 | 10,520 |
| Utilities | 24,884 | 47,468 |
| Total domestic common stocks | 1,595,615 | 2,164,935 |
| Bonds and notes: | | |
| U.S. Government obligations | 145,121 | 355,902 |
| Corporate domestic bonds | 418,202 | 459,603 |
| Total bonds and notes | 563,323 | 815,505 |
| Mutual funds: | | |
| Commodities | 135,142 | 182,879 |
| Domestic small cap | 1,729,650 | 1,660,857 |
| International equity | 1,603,976 | 1,687,838 |
| International fixed income | 250,808 | 251,701 |
| Fixed income | 553,133 | 733,133 |
| Total mutual funds | 4,272,709 | 4,516,408 |

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Investments (continued)

| June 30, | 2015 | 2014 |
|---------------------------------|--------------|--------------|
| Exchange-traded funds: | | |
| Commodity | \$ 238,040 | \$ 201,719 |
| Fixed income | 95,418 | |
| MLP fund | 273,431 | 251,286 |
| Preferred fund | 198,356 | 127,400 |
| REIT | 320,389 | 350,950 |
| Small cap fund | 170,570 | 233,451 |
| Total exchange-traded funds | 1,296,204 | 1,164,806 |
| Total investments at fair value | \$ 7,727,851 | \$ 8,661,654 |

Investment returns were as follows:

| Years ended June 30, | 2015 | 2014 |
|----------------------------------|-------------|--------------|
| Interest and dividends | \$ 247,508 | \$ 225,797 |
| Realized gains, net | 693,808 | 482,189 |
| Unrealized gains (losses), net | (940,328) | 636,316 |
| Investment fees | (28,823) | (24,881) |
| Net income (loss) on investments | \$ (27,835) | \$ 1,319,421 |

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Property and equipment

Property and equipment consist of the following:

| June 30, | 2015 | 2014 |
|---|---------------------|--------------|
| Land | \$ 418,750 | \$ 418,750 |
| Building and improvements | 9,919,551 | 9,919,551 |
| Furniture and equipment | 1,638,983 | 1,552,507 |
| | 11,977,284 | 11,890,808 |
| Accumulated depreciation and amortization | (3,992,003) | (3,593,057) |
| Property and equipment, net | \$ 7,985,281 | \$ 8,297,751 |

7. Restricted net assets

Temporarily restricted net assets include gifts of cash and pledges for which donor-imposed restrictions have not been met. Temporarily restricted net assets are restricted for the following reasons:

| June 30, | 2015 | 2014 |
|---|-------------------|------------|
| Program: | | |
| CHAT capital campaign | \$ 190,985 | |
| Child development/CHAT | 95,417 | \$ 69,167 |
| Optometry | 60,000 | 115,000 |
| Women's clinic | 22,500 | 22,500 |
| Dental Clinic | 20,000 | |
| Children with special needs (Westover Fund) | 17,866 | 25,049 |
| Mammograms | 3,067 | 3,067 |
| Total temporarily restricted net assets | \$ 409,835 | \$ 234,783 |

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Restricted net assets (continued)

Temporarily restricted net assets were released from restrictions as follows:

| Years ended June 30, | 2015 | 2014 |
|---|------------|------------|
| Program: | | |
| Child development/CHAT | \$ 69,167 | \$ 72,500 |
| Optometry | 55,000 | 60,000 |
| Women's clinic | 22,500 | |
| Children with special needs (Westover Fund) | 7,183 | 6,697 |
| Dental clinic | | 12,000 |
| Total net assets released from restrictions | \$ 153,850 | \$ 151,197 |

Permanently restricted net assets consist of the following:

| June 30, | 2015 | 2014 |
|---|------------|------------|
| General endowment fund | \$ 723,054 | \$ 723,054 |
| Westover Fund for children with special needs | 105,000 | 105,000 |
| Total | \$ 828,054 | \$ 828,054 |

8. Endowments

IWS's endowment includes both donor-restricted funds and funds directed by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowments, including those designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Endowments (continued)

The Board of Directors of IWS has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment assets absent explicit donor stipulations to the contrary, which is consistent with historical accounting practices of IWS. As a result of this interpretation, IWS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by IWS in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, IWS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment assets: (1) the duration and preservation of the various assets, (2) the purposes of the donor-restricted endowment assets, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of IWS and (7) IWS's investment policies.

IWS has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide for the immediate needs of the intended beneficiaries of its endowment assets while also maintaining the purchasing power of those endowment assets so that current and future generations may benefit equally. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the amounts distributed for expenditures in support of IWS operating activities, with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity, fixed income securities and real estate investment trusts, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make the Board-directed distributions, which are currently at approximately 6%, while growing the assets if possible. Investment risk is measured in terms of the total endowment assets; investment assets and allocation between asset classes and strategies are managed to not expose the endowment assets to unacceptable levels of risk.

IWS has a present plan of appropriating for distribution each year approximately 6% of its endowment assets' average fair value for the last three years. In establishing this plan, IWS considered the long-term expected return on its investment assets, the nature and duration of the endowments, including the donor-restricted endowment which must be maintained in perpetuity because of donor-restrictions and the possible effects of inflation.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Endowments (continued)

Changes in endowment net assets for the years ended June 30, 2015 and 2014 are as follows:

| Year ended June 30, 2015 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|--|---------------------|------------------------|------------------------|----------------------------|
| Endowment net assets, beginning of year | \$ 8,175,224 | \$ 25,049 | \$ 828,054 | \$ 9,028,327 |
| Contributions | 12,726 | | | 12,726 |
| Investment income | 224,786 | | 22,722 | 247,508 |
| Net depreciation | (252,621) | | (22,722) | (275,343) |
| Amounts appropriated for expenditure | (475,256) | (7,183) | | (482,439) |
| Endowment net assets, end of year | \$ 7,684,859 | \$ 17,866 | \$ 828,054 | \$ 8,530,779 |

| Year ended June 30, 2014 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|--|---------------------|------------------------|------------------------|----------------------------|
| Endowment net assets, beginning of year | \$ 7,449,557 | \$ 11,182 | \$ 828,054 | \$ 8,288,793 |
| Contributions | 7,106 | | | 7,106 |
| Investment income | 202,581 | 3,496 | 19,720 | 225,797 |
| Net appreciation | 982,841 | 17,068 | 93,716 | 1,093,625 |
| Amounts appropriated for expenditure | (466,861) | (6,697) | (113,436) | (586,994) |
| Endowment net assets, end of year | \$ 8,175,224 | \$ 25,049 | \$ 828,054 | \$ 9,028,327 |

For the years ended June 30, 2015 and 2014, amounts appropriated for expenditures consisted of the following:

| Years ended June 30, | 2015 | 2014 |
|--|-------------------|-------------------|
| Board approved appropriation | \$ 480,000 | \$ 480,000 |
| Cash transfer of proceeds from sale of donated stock | 2,439 | 6,994 |
| Cash transfer of discretionary contribution to profit-sharing plan | | 100,000 |
| | \$ 482,439 | \$ 586,994 |

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Patient service revenue

The patient service revenue by source for the years ended June 30, 2015 and 2014 was as follows:

| Years ended June 30, | 2015 | | 2014 | |
|----------------------|--------------|-------------------------------|--------------|-------------------------------|
| | Amount | Percentage of service revenue | Amount | Percentage of service revenue |
| Public aid | \$ 4,524,369 | 93.3 % | \$ 4,424,386 | 94.0 % |
| Self-pay | 182,540 | 3.8 | 190,258 | 4.0 |
| Insurance and other | 142,437 | 2.9 | 91,979 | 2.0 |
| Total | \$ 4,849,346 | 100.0 % | \$ 4,706,623 | 100.0 % |

10. Concentrations

Approximately \$4,524,000 and \$4,424,000 of IWS's revenue was provided by the Illinois Department of Public Aid for the years ended June 30, 2015 and 2014, respectively. The related receivable balances from the Illinois Department of Public Aid amounted to approximately \$541,000 and \$248,000 as of June 30, 2015 and 2014, respectively. In addition, the Illinois Department of Public Aid overpaid IWS during the year ended June 30, 2015. A balance of \$754,674 was outstanding at June 30, 2015 of which IWS has repaid approximately \$725,500 as of November 17, 2015.

In addition, approximately \$727,000 and \$656,000 of IWS's revenue was provided by the Auxiliary during the years ended June 30, 2015 and 2014, respectively.

11. Employee benefit plan

IWS has a defined-contribution profit-sharing plan covering substantially all eligible employees. The plan provides for discretionary contributions based on employee classifications as defined in the plan. No contribution was approved for the years ended June 30, 2015 and 2014.

INFANT WELFARE SOCIETY OF CHICAGO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Related party transactions

During 2015, the contribution from the IWS Auxiliary (the Auxiliary) included \$600,000 for operations, \$4,510 for various other programs and \$122,250 for the CHAT capital campaign. In 2014, the contribution from the Auxiliary included \$650,000 for operations and \$6,169 for various other programs.

IWS provides supporting services to the Auxiliary and has allocated operating, administrative and depreciation expenses to the Auxiliary, based on the relative amount of space used by the Auxiliary on IWS premises. Auxiliary support expenses amounted to \$165,526 and \$247,019 for the years ended June 30, 2015 and 2014, respectively. Depreciation expense related to the thrift shop was \$10,369 and \$33,849 for the years ended June 30, 2015 and 2014, respectively.

13. Commitments

During the year ended June 30, 2015, IWS entered in a construction contract totaling \$284,100 to build the CHAT space. The construction project commenced subsequent to June 30, 2015.

14. Subsequent events

Management of IWS has reviewed and evaluated subsequent events from June 30, 2015, the financial statement date, through November 17, 2015, the date the financial statements were available to be issued. No events have occurred in this period that would be required to be recognized and/or disclosed in these financial statements as required by generally accepted accounting principles.

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*

Board of Directors
Infant Welfare Society of Chicago
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 the Infant Welfare Society of Chicago (an Illinois Not-for-Profit Corporation) (IWS), which comprise the statement of financial position as of June 30, 2015 and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated November 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered IWS’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 IWS’s internal control. Accordingly, we do not express an opinion on the effectiveness of IWS’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 IWS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Ostrow Reisin Berk & Abrams, Ltd.

November 17, 2015