Chapin Hall Center for Children

Financial Statements and Independent Auditor's Reports Required by *Government Auditing Standards and Uniform Guidance*
Years Ended June 30, 2016 and 2015

Chapin Hall Center for Children

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Auditor's Reports Required by *Government*
Auditing Standards and Uniform Guidance
Years Ended June 30, 2016 and 2015

Chapin Hall Center for Children

Contents

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Independent Auditor's Report

To the Board of Directors
Chapin Hall Center for Children
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Chapin Hall Center for Children ("Chapin Hall"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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 Chapin Hall'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 Chapin Hall'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 Chapin Hall as of June 30, 2016 and 2015, 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 Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 additional 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 aspects, 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 February 27, 2017 on our consideration of Chapin Hall'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 Chapin Hall's internal control over financial reporting and compliance.

BDO USA, LLP

Chicago, Illinois
February 28, 2017

Financial Statements

Chapin Hall Center for Children

Statements of Financial Position

June 30,	**2016**	2015
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,851,169**	$ 5,922,940
Amounts held by the University of Chicago		
Operating cash	**1,088,992**	646,078
Investments at fair value	**27,509,346**	29,781,986
Grants, contracts, and other receivables	**5,738,736**	4,831,283
Prepaid expenses	**13,585**	180,013
Deferred unexecuted contract expenses	**-**	108,806
Total Current Assets	**38,201,828**	41,471,106
Fixed Assets, net of accumulated depreciation	**2,367,730**	2,464,881
Total Assets	**$ 40,569,558**	$ 43,935,987
Liabilities and Net Assets		
Accounts payable and accrued liabilities	**$ 2,331,343**	$ 1,616,839
Deferred revenue	**4,049,882**	5,750,267
Mortgage payable, current portion	**250,000**	250,000
Total Current Liabilities	**6,631,225**	7,617,106
Interest rate swap liability	**373,324**	368,645
Mortgage payable, less current portion	**2,550,000**	2,800,000
Total Liabilities	**9,554,549**	10,785,751
Net Assets		
Unrestricted		
Operating (includes building operations)	**13,052,475**	14,193,610
Funds functioning as endowment	**10,022,480**	10,761,753
Special funds	**2,940,054**	3,194,873
Total unrestricted net assets	**26,015,009**	28,150,236
Permanently restricted net assets	**5,000,000**	5,000,000
Total Net Assets	**31,015,009**	33,150,236
Total Liabilities and Net Assets	**$ 40,569,558**	$ 43,935,987

See accompanying notes to financial statements.

Chapin Hall Center for Children

Statements of Activities

Year ended June 30, 2016	Unrestricted Net Assets Research	 Building	 Special Funds	 Total
Operating Activities				
Revenues				
Grants and contracts	$ 15,257,922	$ -	$ -	$ 15,257,922
Contributions and reimbursements	129,795	473,000	-	602,795
Allocation from investments	1,451,964	-	-	1,451,964
Rental income	-	424,777	-	424,777
Total revenues	16,839,681	897,777	-	17,737,458
Expenses				
Research grants and contracts	12,960,918	-	-	12,960,918
General and administrative	4,163,437	516,715	-	4,680,152
Total expenses	17,124,355	516,715	-	17,641,070
Change in Net Assets from Operating Activities before Transfer from Special Funds	(284,674)	381,062	-	96,388
Transfer from Special Funds	254,819	-	(254,819)	-
Change in Net Assets from Operating Activities after Transfer from Special Funds	(29,855)	381,062	(254,819)	96,388
Non-Operating Activities				
Balance of returns on investments	(2,236,294)	-	-	(2,236,294)
Change in fair value of interest rate swap	-	4,679	-	4,679
Total Change in Unrestricted Net Assets	(2,266,149)	385,741	(254,819)	(2,135,227)
Unrestricted Net Assets, beginning of year	23,187,112	1,768,251	3,194,873	28,150,236
Unrestricted Net Assets, end of year	$ 20,920,963	$ 2,153,992	$ 2,940,054	$ 26,015,009

See accompanying notes to financial statements.

Chapin Hall Center for Children

Statements of Activities

Year ended June 30, 2015	Unrestricted Net Assets Research	 Building	 Special Funds	 Total
Operating Activities				
Revenues				
Grants and contracts	$ 11,417,253	$ -	$ -	$ 11,417,253
Contributions and reimbursements	81,654	473,000	-	554,654
Allocation from investments	1,408,000	-	-	1,408,000
Rental income	-	423,906	-	423,906
Total revenues	12,906,907	896,906	-	13,803,813
Expenses				
Research grants and contracts	9,524,998	-	-	9,524,998
General and administrative	3,594,122	308,782	-	3,902,904
Total expenses	13,119,120	308,782	-	13,427,902
Change in Net Assets from Operating Activities before Transfer from Special Funds	(212,213)	588,124	-	375,911
Transfer from Special Funds	125,017	-	(125,017)	-
Change in Net Assets from Operating Activities after Transfer from Special Funds	(87,196)	588,124	(125,017)	375,911
Non-Operating Activities				
Balance of returns on investments	(259,282)	-	-	(259,282)
Change in fair value of interest rate swap	-	25,607	-	25,607
Total Change in Unrestricted Net Assets	(346,478)	613,731	(125,017)	142,236
Unrestricted Net Assets, beginning of year	23,533,590	1,154,520	3,319,890	28,008,000
Unrestricted Net Assets, end of year	$ 23,187,112	$ 1,768,251	$ 3,194,873	$ 28,150,236

See accompanying notes to financial statements.

Chapin Hall Center for Children

Statements of Cash Flows

Year ended June 30, 2016	Research	Building	Total
Cash Flows From Operating Activities			
(Decrease) Increase in net assets	$ (2,520,968)	$ 385,741	$ (2,135,227)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities			
Depreciation	94,121	247,952	342,073
Change in fair value of interest rate swap	-	4,679	4,679
Unrealized loss on investments	1,221,014	-	1,221,014
Realized gain on sales of investments	(322,216)	-	(322,216)
Changes in:			
Grants, contracts, and other receivables	(907,453)	-	(907,453)
Prepaid expenses	166,428	-	166,428
Deferred unexecuted contract expenses	108,806	-	108,806
Accounts payable and accrued liabilities	714,504	-	714,504
Deferred revenue	(1,700,385)	-	(1,700,385)
Net cash (used in) provided by operating activities	(3,146,149)	638,372	(2,507,777)
Cash Flows From Investing Activities			
Fixed asset additions	(244,922)	-	(244,922)
Purchases of investments	(214,365)	-	(214,365)
Proceeds from sales of investments	1,588,207	-	1,588,207
Net cash provided by investing activities	1,128,920	-	1,128,920
Cash Flows From Financing Activities			
Principal payments on mortgage payable	(250,000)	-	(250,000)
Net cash used in financing activities	(250,000)	-	(250,000)
(Decrease) Increase in Cash and Cash Equivalents	(2,267,229)	638,372	(1,628,857)
Cash and Cash Equivalents, at beginning of year	3,272,457	3,296,561	6,569,018
Cash and Cash Equivalents, at end of year	$ 1,005,228	$ 3,934,933	$ 4,940,161
Supplemental Disclosure of Cash Flow Information			
Interest paid	$ -	$ 134,108	$ 134,108
Cash and Cash Equivalents at June 30, 2016 Consist of:			
Primary accounts			$ 2,188,725
Money market account			1,662,444
Held by the University of Chicago			1,088,992
			$ 4,940,161

See accompanying notes to financial statements.

Chapin Hall Center for Children

Statements of Cash Flows

Year ended June 30, 2015	Research	Building	Total
Cash Flows From Operating Activities			
(Decrease) Increase in net assets	$ (471,495)	$ 613,731	$ 142,236
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities			
Depreciation	71,602	222,524	294,126
Change in fair value of interest rate swap	-	(25,607)	(25,607)
Unrealized loss on investments	299,062	-	299,062
Realized gain on sales of investments	(1,292,325)	-	(1,292,325)
Changes in:			
Grants, contracts, and other receivables	(2,274,404)	-	(2,274,404)
Prepaid expenses	(159,745)	-	(159,745)
Deferred unexecuted contract expenses	12,108	-	12,108
Accounts payable and accrued liabilities	444,130	-	444,130
Deferred revenue	3,015,174	-	3,015,174
Net cash (used in) provided by operating activities	(355,893)	810,648	454,755
Cash Flows From Investing Activities			
Fixed asset additions	(284,983)	-	(284,983)
Purchases of investments	(329,722)	-	(329,722)
Proceeds from sales of investments	1,313,447	-	1,313,447
Net cash provided by investing activities	698,742	-	698,742
Cash Flows From Financing Activities			
Principal payments on mortgage payable	(250,000)	-	(250,000)
Net cash used in financing activities	(250,000)	-	(250,000)
Increase in Cash and Cash Equivalents	92,849	810,648	903,497
Cash and Cash Equivalents, at beginning of year	3,179,608	2,485,913	5,665,521
Cash and Cash Equivalents, at end of year	$ 3,272,457	$ 3,296,561	$ 6,569,018
Supplemental Disclosure of Cash Flow Information			
Interest paid	$ -	$ 117,260	$ 117,260
Cash and Cash Equivalents at June 30, 2015 Consist of:			
Primary accounts			$ 4,419,617
Money market account			1,503,323
Held by the University of Chicago			646,078
			$ 6,569,018

See accompanying notes to financial statements.

1. Organization

Chapin Hall is an Illinois not-for-profit corporation that qualifies for exemption from federal income taxes under Section 501(c)(3) of the (“IRC”). Chapin Hall conducts its operations at the University of Chicago (see Notes 5 and 7). On July 1, 2013, Chapin Hall became operationally separate from the University of Chicago (“University”). Chapin Hall, although still formally affiliated with the University of Chicago through its affiliation agreement, became responsible for all accounting, employment, and grants and contracts activity. Chapin Hall’s endowment continues to be managed by the University.

Chapin Hall conducts research on, and demonstrates possible solutions to, children’s issues. Income from Chapin Hall’s investments, project grants and contracts from governmental and private sources, and other revenue fund these projects. Certain Chapin Hall research grants and contracts from governmental and private sources are arranged through the University.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

Display of Assets by Class

The net assets of Chapin Hall are reported in the following classes: (a) unrestricted net assets which are composed of operating funds (which includes building operations), (b) funds functioning as endowments and special funds, and (c) permanently restricted net assets.

Management has designated certain funds as “funds functioning as endowment” which include donated funds for research and their related income and appreciation. Management has maintained these funds as an endowment and intends to continue this practice in the future.

Management has also designated certain special funds, of which the description and balance of funds available are as follows:

June 30,		**2016**		2015
The Strategic Opportunities Funds are used for discretionary projects related to the mission of Chapin Hall such as research start-up costs, fund-matching costs, organizational and research capacity building expenses, and research project expansion.	**$**	**801,300**	$	897,108
The Center for State Foster Care and Adoption Data (“CSFCAD”) aggregates the fees generated from individual state center service contracts, net of administrative overhead. The intention of this fund is to use it for costs related to this project.		**1,398,500**		1,498,843
The Harold Richman Fellowship Fund is a collaborative partnership between Chapin Hall and the University of Chicago School of Social Service Administration ("SSA") to support young and early career scholars interested in conducting applied research related to vulnerable children, families, and their communities.		**740,254**		798,922
	$	**2,940,054**	$	3,194,873

During fiscal 1998, Chapin Hall received a grant from the MacArthur Foundation in the amount of $5,000,000. The purpose of the grant was to contribute to Chapin Hall's Endowment Fund. The principal of the endowment is to be kept intact and the income used for Chapin Hall's work. The grant is reflected as a permanently restricted net asset. Earnings on the endowment are computed annually and available for operations when appropriated (see Note 6).

Financial Instruments and Concentration of Credit Risk

Chapin Hall maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. Chapin Hall has not experienced any losses in such accounts and management does not believe Chapin Hall is exposed to any significant credit risk on cash.

Chapin Hall's financial instruments are cash and cash equivalents, investments, receivables, accounts payable, and mortgage payable. The recorded values of cash, accounts receivable, and accounts payable approximate their fair values based on their short-term nature. The recorded value of mortgage payable approximates fair value, as interest approximates market rates.

Chapin Hall accounts for the value of its interest rate swap on a mark to market method based upon quotations from market makers.

Cash and Cash Equivalents

Chapin Hall considers all short-term, highly liquid investments to be cash equivalents. Cash and cash equivalents include cash, a certificate of deposit, short-term money market funds, and operating cash amounts on deposit with the University (see Note 7).

Grants, Contracts, and Other Receivables

Grants, contracts, and other receivables consist primarily of amounts due under various contracts and grants expected to be collected in the fiscal year ending June 30, 2017.

Fixed Assets

Building renovations, furniture, and equipment are recorded at cost or, if donated, at estimated fair market value at the date of donation.

Chapin Hall provides for depreciation of fixed assets on a straight-line basis over their estimated useful lives – the lesser of estimated useful life or remaining building lease term for renovations, 10 years for furniture, 3 to 5 years for equipment.

Revenue Recognition

Contributions are recognized as revenue in the period received or in the period in which an unconditional pledge is received. Donor-restricted contributions whose restrictions are met in the year of the contribution are reported as unrestricted support.

Deferred revenue represents operating grant amounts received by the University on behalf of Chapin Hall, or directly by Chapin Hall, in excess of the related grant expenditures made. Operating grant or contract revenue is recorded for financial reporting purposes as the related fully executed reimbursable grant or contract expenditures are incurred. If reimbursable grant or contract expenditures are incurred before the grant or contract is fully executed, these expenses are recorded as deferred unexecuted contract expenses.

Expenses

Chapin Hall has categorized expenses on a functional basis as follows:

Research Grants and Contracts. This includes research salaries and other direct and indirect costs allocable to grant and contract research projects. These expenses are primarily supported with grant and contract funds restricted to specific projects. In addition, the total expenses include internally funded research.

General and Administrative. This includes Chapin Hall management, communications and public affairs, clerical, accounting staff, and other associated overhead expenses. Chapin Hall has separately presented the operations of the building it manages on behalf of the University at 1313 East 60th Street within unrestricted activities.

Chapin Hall has allocated $481,237 and $443,277 of general and administrative building expenses to research operations as rent expense for its 2016 and 2015 cost of occupancy, respectively, at 1313 East 60th Street.

Income Taxes

Chapin Hall is exempt from income taxes under Section 501(c)(3) of the IRC and applicable state law. Chapin Hall is not subject to the federal excise tax on net investment income.

Uncertainty in Income Taxes

Chapin Hall recognizes the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. Chapin Hall does not believe that there are any unrecognized tax benefits that should be recorded. No interest or penalties are recorded or included in the statements of activities for the years ended June 30, 2016 and 2015. Should Chapin Hall need to accrue interest or penalties on uncertain tax positions, it would recognize the interest as interest expense and the penalties as other expenses.

Fair Value Measurements

Chapin Hall performs fair value measurements using the established framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

Fair value is defined in the Accounting Standards Codification ("ASC") as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the most advantageous market for the asset or liability in an orderly transaction. Fair value measurement is based on a hierarchy of observable or unobservable inputs. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and the fair value can be determined through the use of models or other valuation methodologies; and

Level 3 - Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity of the asset and liability and the reporting entity makes estimates and assumptions relating to the pricing of the asset or liability including assumptions regarding risk.

The reporting entity is permitted to measure the fair value of an investment that does not have a readily determinable fair value, based on the net asset value per share ("NAV") of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV should be adjusted to reflect any significant events that may change the valuation. The investment interest held by Chapin Hall in the University Total Return Investment Portfolio managed pool investment fund is valued based on Chapin Hall's NAV in the investment.

Chapin Hall has elected the NAV practical expedient which allows for investments measured using NAV not to be required to classify the investments within the fair value hierarchy and disclose the amount of investments measured using the NAV practical expedient in order to permit reconciliation of the fair value of investments in the hierarchy to the corresponding line items in the Statement of Financial Position. The amendments are effective retrospectively for fiscal years beginning after December 15, 2016. Early adoption is permitted. This standard will have footnote disclosure impact on Chapin Hall's financial statements when adopted.

Chapin Hall uses an interest rate swap to manage interest rate risk. The valuation of the instrument is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and uses observable market-based inputs, including the Securities Industry Financial Markets Association index. The fair value estimate is classified as Level 2 under the fair value hierarchy.

Use of Estimates

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

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

Subsequent Events

The Chapin Hall has evaluated subsequent events through February 28, 2017, the date the financial statements were available for issuance. No events have occurred through that date which required recognition or disclosure in these financial statements.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "*Leases (Topic 842)*," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use ("ROU") model that requires, for all leases with a lease term of more than 12 months, an asset representing its ROU the underlying asset for the lease term and a liability to make lease payments to be recorded. ASU 2016-02 is effective for the Organization's fiscal years ending June 30, 2020 with early adoption permitted. Management is currently evaluating the impact of ASU 2016-02 on its financial statements.

In August 2016, the FASB issued ASU 2016-14, "*Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) Present – Presentation of Financial Statements of Not-for-Profit Entities*" (ASU 2016-14). ASU 2016-14 amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for the Organization's financial statements for fiscal years ending June 30, 2019. Early adoption is permitted. The provisions of ASU 2016-14 must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. Management is currently evaluating the impact of ASU 2016-14 on their financial statements.

In May 2015, the FASB issued ASU 2015-07, "*Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*" (ASU 2015-07). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the NAV practical expedient provided by ASC 820, *"Fair Value Measurement."* Disclosures about investments in certain entities that calculate NAV per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the NAV practical expedient. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016, with early application permitted. Management is currently evaluating the impact of ASU 2015-07 on their financial statements.

3. Investments

Chapin Hall invests in the University Total Return Investment Portfolio (“TRIP”) managed pool investment fund. The TRIP’s investments in equity securities and debt securities are carried at fair value, based on quoted market prices. The TRIP’s investments in alternative investments, such as absolute returns, private equities, and real assets, are valued at fair value based on valuations and other financial information provided by the external investment managers. The valuations of the alternative investments involve estimates, appraisals, assumptions, and methods which are reviewed by the University. Accordingly, the estimated fair values of the alternative investments may differ significantly from the values that would have been used had a ready market existed for these investments and the differences could be material. The fair value of the TRIP as of June 30, 2016 and 2015 was $27,509,346 and $29,781,986, respectively.

The assets of the University TRIP managed pooled investments fund were allocated as follows:

June 30,	**2016**	2015
Absolute returns	**33.2%**	30.5%
Public equities	**22.1**	19.7
Private equities	**15.1**	14.8
Debt securities	**10.1**	14.9
Real estate	**6.4**	6.3
Natural resources	**6.1**	6.9
Private debt	**5.0**	4.0
Cash equivalents	**2.0**	2.9
Total	**100.0%**	100.0%

Total return on investments included in the statements of activities within changes in unrestricted net assets is summarized as follows:

Year ended June 30,	**2016**	2015
Realized gain	**$ 322,216**	$ 1,292,325
Unrealized loss	**(1,221,014)**	(299,062)
Interest and dividends	**277,485**	334,373
Management fees	**(163,017)**	(178,918)
Total return on investments	**$ (784,330)**	$ 1,148,718

The total return on investments has been reflected in the statements of activities as follows:

Year ended June 30,	**2016**	2015
Allocation from investments	**$ 1,451,964**	$ 1,408,000
Balance of return on investments	**(2,236,294)**	(259,282)
Total	**$ (784,330)**	$ 1,148,718

The $1,451,964 and $1,408,000 transferred to operations above is the withdrawal from the TRIP fund based on the annual endowment calculation in Note 6. This amount is included as unrestricted revenue and as an offset to investment income in balance of return on investments amount in the statements of activities.

Chapin Hall may request distributions from the TRIP fund once a quarter, subject to the following notice requirements:

Requested Withdrawal Amount	Notification Period
Under $10,000,000	90 days
Between $10,000,000 and $30,000,000	180 days
Greater than $30,000,000	270 days

The following tables summarize Chapin Hall's assets and liabilities accounted for at fair value as of June 30, 2016 and 2015, using the fair value hierarchy:

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**2016 Total**
Assets				
Cash equivalents - money market	**$ 1,662,444**	**$ -**	**$ -**	**$ 1,662,444**
TRIP managed pool investment fund	**-**	**-**	**27,509,346**	**27,509,346**
	$ 1,662,444	**$ -**	**$ 27,509,346**	**$ 29,171,790**
Liabilities				
Interest rate swap	**$ -**	**$ 373,324**	**$ -**	**$ 373,324**

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2015 Total
Assets				
Cash equivalents – money market	$ 1,503,323	$ -	$ -	$ 1,503,323
TRIP managed pool investment fund	-	-	29,781,986	29,781,986
	$ 1,503,323	$ -	$ 29,781,986	$ 31,285,309
Liabilities				
Interest rate swap	$ -	$ 368,645	$ -	$ 368,645

4. Fixed Assets

Fixed assets consisted of the following:

June 30,	**2016**	2015
Building renovations (see Note 5)	**$ 5,688,631**	$ 5,598,040
Furniture and equipment	**757,776**	603,445
	6,446,407	6,201,485
Accumulated depreciation	**(4,078,677)**	(3,736,604)
Total	**$ 2,367,730**	$ 2,464,881

5. Mortgage Payable

In fiscal year 1995, Chapin Hall entered into a mortgage and security agreement with the Illinois Educational Facilities Authority ("IEFA") for the renovation of the University property at 1313 East 60th Street. Proceeds from the mortgage totaled $5.5 million.

In May 2003, Chapin Hall refinanced the loan through the issuance of $5,250,000 of bonds secured by a mortgage and security agreement with IEFA. During fiscal 2004, the IEFA was consolidated into the Illinois Finance Authority. The new bonds are currently enhanced by a letter of credit with Fifth Third Bank which extends until May 2017. The balance due on bonds as of June 30, 2016 and 2015 was $2,800,000 and $3,050,000, respectively, with interest at a variable rate. The bond matures on July 1, 2024.

The loan is payable over 20 years and future fiscal year principal payments follows:

2017	250,000
2018	250,000
2019	300,000
2020	300,000
2021	300,000
Thereafter	1,400,000
Total	$ 2,800,000

Chapin Hall entered into an interest rate swap transaction evidenced by a letter agreement (the "Agreement") dated May 15, 2003. The Agreement effectively changes Chapin Hall's interest exposure on the outstanding principal balance from a variable rate on the outstanding bonds to a fixed rate, plus basis risk, of 3.95% percent based on an original notional amount of $5,250,000, which is reduced over time upon repayment of the bonds. The average effective interest rate of the Agreement for the year ended June 30, 2016 and 2015 was 4.02% and 4.00%, respectively. The Agreement terminates on July 1, 2024.

As of June 30, 2016 and 2015, the interest rate swap liability was $373,324 and $368,645, respectively, and is reflected in the Statements of Financial Position and the increase/(decrease) in fair value of $4,679 and ($25,607), respectively, for the years ended June 30, 2016 and 2015, is reflected in the Statements of Activities.

6. Endowment Funds

Chapin Hall's endowment funds consist of a permanently restricted endowment fund and Board-designated endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Chapin Hall follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted by the state of Illinois. UPMIFA differs from laws previously in place in a few key areas. It eliminates the historic dollar value rule with respect to endowment fund spending, it updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds.

Interpretation of Relevant Law

The Board of Directors of Chapin Hall has interpreted UPMIFA as requiring the preservation of the fair value of the original gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Chapin Hall classified 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 fund. In accordance with UPMIFA, Chapin Hall considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1) The duration and preservation of the endowment fund;
2) The purpose of Chapin Hall and permanently restricted endowment fund;
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 Chapin Hall; and
7) The investment policies of Chapin Hall.

Chapin Hall's endowment net asset composition by type of fund is as follows for the years ended June 30, 2016 and 2015.

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Permanently restricted	$ -	$ -	$ 5,000,000	$ 5,000,000
Board-designated	10,022,480	-	-	10,022,480
Total	**$ 10,022,480**	**$ -**	**$ 5,000,000**	**$15,022,480**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Permanently restricted	$ -	$ -	$ 5,000,000	$ 5,000,000
Board-designated	10,761,753	-	-	10,761,753
Total	$ 10,761,753	$ -	$ 5,000,000	$ 15,761,753

The changes in endowment net assets for Chapin Hall were as follows for the years ended June 30, 2016 and 2015:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, June 30, 2014	$ 10,354,876	$ -	$ 5,000,000	$ 15,354,876
Investment return				
Net investment income	135,534	-	-	135,534
Net appreciation (realized and unrealized)	271,343	429,106	-	700,449
Total investment return	406,877	429,106	-	835,983
Transfer to unrestricted operating fund – appropriated	-	(429,106)	-	(429,106)
Endowment net assets, June 30, 2015	10,761,753	-	5,000,000	15,761,753
Investment return				
Net investment income	413,139	-	-	413,139
Net depreciation (realized and unrealized)	(680,879)	(471,533)	-	(1,152,412)
Total investment return	(267,740)	(471,533)	-	(739,273)
Transfer to unrestricted	(471,533)	471,533	-	-
Endowment net assets, June 30, 2016	**$ 10,022,480**	**$ -**	**$ 5,000,000**	**$ 15,022,480**

During 2016 and 2015, the permanently restricted fund incurred a total net investment (loss)/gain of ($471,533) and $429,106, respectively. The 2016 loss is reflected as a transfer to unrestricted until future gains restore the fair value of the assets of the endowment fund during 2016. The 2015 gain is reflected as temporarily restricted until its appropriation for expenditure in the unrestricted operating fund.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual permanently restricted endowment funds may fall below the level that the donor or Illinois UPMIFA requires Chapin Hall to retain as a fund of perpetual duration. Deficiencies of this nature would be reported in unrestricted net assets. There were no such deficiencies as of June 30, 2016 and 2015, respectively.

Endowment Payout

Chapin Hall 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 of permanently restricted funds that Chapin Hall must hold in perpetuity or for a donor-specified period as well as Board-designated funds functioning as endowment.

Chapin Hall has a policy of a 5% distribution each year of its investment portfolio's average fair value, which includes its endowment funds and other unrestricted Board designated funds. The average is based on the prior 12 quarters through March 31st of the year preceding the fiscal year in which the distribution is planned. In establishing this policy, Chapin Hall considered the long-term expected return on its investment portfolio.

Chapin Hall's investment policy provides that the pro-rata share of realized and unrealized gains and losses, dividend and interest earned and management fees be allocated to the Board-designated endowment fund and the permanently restricted endowment fund in any given year. Pay-outs from the endowment for operations are made only out of the unrestricted funds included in the investment portfolio. The balance of net assets designated as special funds is not held separately in endowment funds. The pay-out for fiscal years 2016 and 2015 was $1,451,964 and $1,408,000, respectively.

7. Transactions with the University of Chicago

Most of Chapin Hall's research grants and contracts from governmental and private agencies were arranged through the University for fiscal years 2016 and 2015. The terms of certain research grants and contracts allow the University to charge indirect overhead to the funding agencies.

Chapin Hall has certain funds on deposit with the University. These funds consist of the following three elements.

a. Operating cash: Investment income allocated to Chapin Hall by the Board of Directors and other unrestricted income is deposited with the University and is drawn upon based on operating cash needs. Such deposits are noninterest-bearing.

b. Investments: Investments in a pooled investment fund are held and managed by the University (Note 3).

Chapin Hall occupies and has renovated a building owned by the University (Notes 4 and 5). The lease term is for a period of 30 years expiring on December 31, 2024 with annual base rental payments of $100 to the University. The lease agreement stipulates that Chapin Hall is responsible for all costs of operating the building. Additionally, Chapin Hall participates in the funding of capital improvements. During 2016 and 2015, the University provided $473,000 annually, to reimburse Chapin Hall for certain costs of operating the building. Chapin Hall rents out space to various University departments under various short-term lease agreements. In 2016 and 2015, rental income from University departments totaled $424,777 and $423,906, respectively.

Supplemental Schedule

Chapin Hall Center for Children

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Grantor/Program or Federal Grantor/Pass-Through Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Payments to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Chicago Public Schools				
Teenage Pregnancy Prevention Program - Teen Outreach Evaluation Year 5	93.297	N/A	$ -	$ 61,242
Passed Through Demoiselle 2 Femme				
Teenage Pregnancy Prevention Program Year 3	93.297	N/A	-	23,214
Teenage Pregnancy Prevention Program Year 4	93.297	N/A	-	17,515
Total 93.297 Teenage Pregnancy Prevention Program			-	**101,971**
Passed Through Erikson Institute				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home				
Visiting Program - Fussy Baby Eval. Y4	93.505	N/A	-	198,023
Visiting Program - Fussy Baby Eval. Y5	93.505	N/A	-	121,757
Total 93.505 Affordable Care Act Maternal, Infant and Early Childhood Home Visiting Program			-	**319,780**
Passed Through University of Pittsburgh				
Title IV-E Waiver Evaluation, PA Y3	93.658	N/A	-	117,792
Passed Through Human Services Resources Institute				
Title IV-E Waiver Evaluation, OH	93.658	N/A	-	71,310
Passed Through Illinois Department of Children and Family Services				
Title IV-E Waiver Evaluation, IL	93.658	N/A	-	188,548
Passed Through Human Services Research Institute				
Title IV-E Waiver Evaluation, CO	93.658	N/A	-	91,287
Passed Through University of Hawaii				
Title IV-E Waiver Evaluation, NYC	93.658	N/A	-	13,762
Total 93.658 Foster Care Title IV-E			-	**482,699**
Passed Through Northwestern University				
The Substance Abuse and Mental Health Services Administration: Center for Mental Health Services	93.046	N/A	-	1,404
Passed Through Alameda County Health Care Services				
Child Abuse and Neglect Discretionary Activities - Almadea County	93.670	N/A	-	8,549
Child Abuse and Neglect Discretionary Activities - Almadea County Phase II	93.670	N/A	-	34,604
Passed Through Washington University in St. Louis				
Child Abuse and Neglect Discretionary Activities - Housing Services in Child Welfare	93.670	N/A	-	8,677
Passed Through Illinois Collaboration on Youth				
Child Abuse and Neglect Discretionary Activities - A Model Intervention for Youth/Young Adults Y2	93.670	N/A	-	3,507
Total 93.670 Child Abuse and Neglect Discretionary Activities			-	**55,337**
Passed Through University of Michigan				
Adoption Opportunities - National Quality Improvement Center: Child Representation				
Demonstration Yr. 5	93.652	N/A	-	63,508
Adoption Opportunities - National Quality Improvement Center: Child Representation				
Demonstration Yr. 6	93.652	N/A	-	74,390
Total 93.652 Adoption Opportunities - National Quality Improvement Center			-	**137,898**

Chapin Hall Center for Children

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Grantor/Program or Federal Grantor/Pass-Through Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Payments to Subrecipients	Federal Expenditures
Passed Through Abt Associates Inc				
National Research Center on Hispanic Children and Families	93.647	N/A	$ -	$ 60,137
Passed Through University of Chicago				
Social Services Research and Demonstration - Data Center for Family Self-Sufficiency Yr.2	93.647	N/A	-	42,794
Social Services Research and Demonstration - Data Center for Family Self-Sufficiency Yr.2 (Carryover)	93.647	N/A	-	128,442
Social Services Research and Demonstration - Data Center for Family Self-Sufficiency Yr.2 (Goerge)	93.647	N/A	-	11,937
Social Services Research and Demonstration - Data Center for Family Self-Sufficiency Yr.3	93.647	N/A	-	72,931
Social Services Research and Demonstration - Data Center for Family Self-Sufficiency Yr.3 (Goerge)	93.647	N/A	-	28,746
Total 93.647 Social Services Research and Demonstration			-	**344,987**
Passed Through Chicago Department of Family and Support Services				
Head Start Community Assessment Yr. 10	93.600	N/A	-	52,691
Head Start Community Assessment Yr. 11	93.600	N/A	-	49,093
Total 93.600 Head Start			-	**101,784**
Passed Through Northern Illinois University				
Maternal and Child Health Research	93.110	N/A	-	20,184
Passed Through Zero to Three				
Maternal, Infant, and Early Childhood Home Visiting Program Yr. 4	93.110	N/A	-	132,265
Total 93.110			-	**152,449**
Passed Through University of California, Berkeley				
National Abandoned Infants Resource Center Yr. 1	93.551	N/A	-	78,138
National Abandoned Infants Resource Center Yr. 2	93.551	N/A	-	101,948
Total 93.551 National Abandoned Infants Resource Center			-	**180,086**
Child Care Subsidies and the Long Term Achievement of Low-Income Children	93.575	N/A	-	71,297
The Urban Institute - Phase II Evaluation Activities for the Chafee Foster Care Independence Program	93.HHSP23320095654WC	N/A	-	125,785
Passed Through Our Kids				
Administration for Children & Families - Our Kids Education Collaboration Project	93.9OC01080	N/A	-	17,488
Passed Through Yale School of Medicine				
Administration for Children & Families - Cost Calculator Time Use Consulting	93.SNP6382054	N/A	-	6,546
Passed Through Human Services Agency of San Francisco				
Housing & Homeless Services - Rapid Support and Housing for Families Y4	93.670	N/A	-	99,576
Passed Through IMPAQ International, LLC				
An Integrated Child Abuse Prevention Framework: Strategies for Effective State and Community Development	93.HHSP233201400025C	N/A	-	122,507
Passed Through Tennessee Department of Children Services				
Social Services Block Grant - Child Welfare Eval Master TN	93.667	N/A	-	216,437
National Opinion Research Center - National Survey of Early Care and Education Project FY 2014	93.HHSP23320095647WC	N/A	-	6,368
National Opinion Research Center - Multi-Site Evaluation of Project Launch (Phase 2) Year 2	93.HHSP23320095647WC	N/A	-	2,875
Total 93.HHSP23320095647WC National Opinion Research Center			-	**9,243**
Passed Through University of Chicago - The Harris School				
Administration for Children & Families - Intensive Supportive Housing for Families (ISHF) Subcontract	93.Unknown	N/A	-	9,801
Passed Through Vanderbilt University				
Education Collaboration - Richard Epstein FY16 Consulting	93.1U53DD000170	N/A	-	3,361
Education Collaboration - Vanderbilt Services - ADDM Network	93.1U53DD000170	N/A	-	3,170
Total 93.1U53DD000170 Education Collaboration				6,531
Passed through University of Maryland				
BBI Post-Residential Follow-Up Survey Feasibility Pilot	930000033024.000	N/A	-	3,330
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			**-**	**2,566,936**

Chapin Hall Center for Children

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Cluster Title	CFDA Number	Entity Identifying Number	Payments to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through Chicago Public Schools				
High School Graduation Initiative - Evaluation of Chicago Public Schools PASS	84.360A	N/A	$ -	$ 22,590
Passed Through Erikson Institute				
Cooperative Agreements - Promoting Self-Regulation and Learning through Mindfulness	84.411C	N/A	-	196,667
Passed Through Illinois Office of Early Childhood				
Race to the Top - Early Learning Challenge	84.412	N/A	-	106,535
Passed Through Chicago Department of Family and Support Services				
Chicago Young Parents Program Year 1	84.420A	N/A	-	55,667
TOTAL U.S. DEPARTMENT OF EDUCATION			-	381,459
NATIONAL SCIENCE FOUNDATION				
Passed Through University of Chicago - Computation Institute				
NSF Program Travel	47.075	N/A	-	14,475
An Urban Sciences Research Coordination Network for Data-Driven Urban Design and Analysis	47.075	N/A	-	2,529
TOTAL NATIONAL SCIENCE FOUNDATION			-	17,004
U.S. DEPARTMENT OF COMMERCE				
Passed Through U.S. Census Bureau				
National Opinion Research Center - CARRA Work	27.GS-10F-0033M	N/A	-	21,360
U.S. DEPARTMENT OF JUSTICE - OFFICE OF JUVENILE JUSTICE AND DELINQUENCY PREVENTION				
Passed Through California State University				
Design Study of Dual Systems Youth Project	16.818	N/A	-	11,690
Total Expenditures of Federal Awards			**$ -**	**$ 2,998,449**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal grant activity of Chapin Hall under the programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Chapin Hall, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of Chapin Hall. Therefore, some amounts presented in the schedule may differ from amounts presented in the financial statements. Grant revenues are recorded for financial reporting purposes when Chapin Hall has met the qualifications for the respective grants. There were no noncash Federal Awards during the fiscal year. Chapin Hall does not provide Federal Awards to sub-recipients. Chapin Hall has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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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
Chapin Hall Center 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 Chapin Hall Center for Children ("the Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies that we consider to be material weaknesses.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. See findings 2016-001 and 2016-002.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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.*

Chapin Hall's Response to Findings

Chapin Hall's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Chapin Hall's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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.

BDO USA, LLP

Chicago, Illinois
February 28, 2017

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330 N. Wabash Avenue, Suite 3200
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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Chapin Hall Center for Children
Chicago, Illinois

Report on Compliance for Each Major Federal Program

We have audited Chapin Hall Center for Children's ("the Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are 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 each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chapin Hall's major federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal* Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Organization'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 each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Organization 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Organization'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 and, therefore, certain material weaknesses or significant deficiencies may exist that were not identified. 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 results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Chicago, Illinois
February 28, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	X yes	___ no
• Significant deficiency(ies) identified?	___ yes	X none reported
• Noncompliance material to financial statements noted?	___ yes	X no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified?	___ yes	X 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 2 CFR 200.516(a)?	___ yes	X no

Identification of major programs:

CFDA/Contract Number	Name of Federal Program or Cluster
CFDA #93.658	U.S. Department of Health and Human Services – Title IV – E Foster Care
CFDA #93.647	U.S. Department of Health and Human Services – Social Services Research and Demonstration

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X yes	___ no

SECTION II. – FINANCIAL STATEMENT FINDINGS

2016-001 Financial Statement Close Process

Criteria - The general ledger and accounting records used to maintain the financial information of the entity should be reconciled on a monthly basis.

Condition - We noted a significant lag in account reconciliations which caused various material adjustments to be made after fiscal year-end.

Context - This was a condition noted during our audit procedures on various accounts.

Effect - Potential misstatement due to unrecorded transactions could occur in the presentation of the monthly and fiscal year-end financial statements.

Cause - Due to employee turnover within the accounting department, various month-end processes were not operating properly or timely. Also, the entity does not have a formal financial statement close process.

Recommendation - We believe that the occurrence of these adjustments could have been reduced, if not completely avoided, had the general accounts been thoroughly analyzed and reviewed during the preparation of the regular monthly financial statements. In addition, management should adopt and implement a monthly close process to reconcile all accounts on a timely basis.

Views of Responsible Officials and Planned Correction Actions:

To address the temporary lag in account reconciliations (which caused various adjustments to be made after the fiscal year-end), Chapin Hall has taken several corrective actions. First, management does note that Chapin Hall has had a long established monthly close process. However, due to increased volume of revenue, expenses and necessary invoicing, and unanticipated staff turnover, in January through June 2016, Chapin Hall had insufficient capacity to complete the normal monthly close process. In response, during early 2016, Chapin Hall filled four positions: Director of Financial Operations (filling an unexpected vacancy), Controller (position was reclassified from a part-time employment status to a full-time role), an Accounting Associate (new position) and an Accounts Receivable Clerk (new position). In addition, Chapin Hall hired temporary help in the accounting area for six months (January to June 2016) to augment full-time staff and address backlog.

With a full staff in place, Chapin Hall has successfully conducted its monthly closes since July 2016. Closings, supervised by the Controller, have been completed by the third week of the next month. Beginning in December 2016, upon completion each month, financials are now reported to the Director of Financial Operations, the Executive Director and the Chair of the Board of Director's Audit and Finance Committee. In addition to re-instituting timely month close processes in the first month of FY17, the Controller will perform a quarterly balance sheet reconciliation to assure adjustments are booked on a timely basis and review the quarterly balance sheet reconciliation and reviews with the Director of Financial Operations, the Executive Director and the Chair of the Board of Director's Audit and Finance Committee.

2016-002 Billings Process and Receivables Monitoring

Criteria - Customer invoices should be billed and processed in a timely manner and billed and unbilled receivables should be closely monitored.

Condition - We noted a significant lag in billings to customers during the last quarter of the fiscal year and accumulated receivables balances.

Context - This was a condition noted during our audit procedures related to the accounts receivable account.

Effect - Significant lag in cash receipts as invoices were not issued in a timely manner and receivable balances accumulated. This caused Chapin Hall to use its own funds to pay for operating expenses as there was a decreased inflow of funds towards the fiscal year-end. It also effects the accounts receivable presentation of the monthly and fiscal year-end financial statements.

Cause - Due to employee turnover within the accounting department, various month-end processes were not operating properly. This caused invoices not being billed for a significant period of time during the fiscal year and a decreased cash inflow as invoices were not able to be collected timely.

Recommendation - We believe that significant lag in billings to customers could have been reduced, if not totally avoided, had management implemented a month-end close process regarding customer billings and receivables monitoring. This process would ensure invoices are billed to customers in a timely manner, increase collections and ultimately increase cash inflow.

Views of Responsible Officials and Planned Correction Actions:

To address the timely billing and processing of customer invoices and receivables monitoring, corrective actions have been taken. Specifically, Chapin Hall has worked to ensure that the issues related to increased volume of invoices, resultant under-staffing, and employee turnover have been addressed. During FY16, Chapin Hall filled four positions including the Director of Financial Operations (filling an unexpected vacancy), Controller (position was reclassified from a part-time employment status to a full-time role), an Accounting Associate (new position), and an Accounts Receivable Clerk (new position). In addition, Chapin Hall hired temporary help in the accounting area for six months (January to June 2016) to augment full-time staff and address backlog.

In addition to re-instituting regular monthly close processes effective in July 2016, Chapin Hall has developed a standardized monthly billing process including the following: As Chapin Hall closes each month, an Invoice Due Report is generated which shows all invoices for the month. The Controller reviews the Invoice Due Report to determine whether all invoices for the month have been properly billed and takes corrective action(s) as needed in regard to any unbilled invoices. The Invoice Due Report ensures a regular review of reconciliations of receivables including an intentional separation of the balance of outstanding invoices from the balance of revenue to be billed (including accounts which have been opened in advance of signed contracts; also known as advanced accounts). The Controller also reviews the report to determine if proper processes are in place which ensure that the oldest (or aged) billings are given top priority as invoicing is completed, again, taking corrective action as needed in cases where oldest billings are not being given proper priority. Any delays or exceptions to monthly invoices that have not been properly billed are reported by the Controller to the Director of Financial Operations, with recommendations for corrective action(s) for each delay and/or exception.

SECTION III. - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no audit findings noted that are required to be reported in accordance with 2 CFR 200.516(a).