Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Financial Report
with Additional Information
June 30, 2018

Contents

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Ada S. McKinley Community Services, Inc. and Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ada S. McKinley Community Services, Inc. and Subsidiary (the "Organizations"), which comprise the consolidated statement of financial position as of June 30, 2018 and 2017 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Samaritas, Inc. was not audited under government auditing standards.

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

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ada S. McKinley Community Services, Inc. and Subsidiary as of June 30, 2018 and 2017 and the changes in their net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Ada S. McKinley Community Services, Inc. and Subsidiary

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018 on our consideration of Ada S. McKinley Community Services, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Ada S. McKinley Community Services, Inc. and Subsidiary's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 19, 2018

Consolidated Statement of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 4,633,622	$ 4,975,725
Receivables:		
Accounts receivable - Net (Notes 2 and 3)	5,350,327	4,759,979
Other receivables	7,481	13,513
Prepaid expenses	79,502	122,566
Total current assets	10,070,932	9,871,783
Investments (Notes 4 and 5)	826,199	779,952
Other Assets		
Deposits	2,082	2,082
Deposits held in escrow (Note 7)	366,608	201,721
Assets Held for Resale - Net (Notes 5 and 18)	207,000	275,080
Property and Equipment - Net (Note 6)	6,381,368	6,360,257
Advances to Affiliates (Note 17)	481,329	99,309
Total assets	**$ 18,335,518**	**$ 17,590,184**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,746,658	$ 1,210,144
Accrued liabilities and other:		
Accrued wages and related taxes	1,973,347	1,810,609
Accrued interest	13,780	13,801
Settlements payable and other liabilities (Note 10)	1,071,172	882,870
Deferred revenue	164,220	236,691
Current portion of notes payable (Note 9)	212,946	200,279
Total current liabilities	5,182,123	4,354,394
Mortgage Notes Payable - Net of current portion (Note 9)	3,325,085	3,535,651
Pension Benefit Obligation (Note 11)	4,776,485	5,657,173
Total liabilities	13,283,693	13,547,218
Net Assets		
Unrestricted	4,210,943	3,238,862
Temporarily restricted (Note 12)	9,013	23,713
Permanently restricted (Note 13)	831,869	780,391
Total net assets	5,051,825	4,042,966
Total liabilities and net assets	**$ 18,335,518**	**$ 17,590,184**

See notes to consolidated financial statements.

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Revenue and support:		
Fees and grants from governmental agencies (Note 14)	$ 26,338,681	$ 26,050,610
Rehabilitation workshops, contract revenue, and other revenue (Note 15)	12,480,576	10,621,436
Contributions (including $8,619 and $39,209 in kind for 2018 and 2017, respectively)	134,719	169,287
United Way of Chicago allocation	-	976
Total revenue and support	38,953,976	36,842,309
Net assets released from restrictions	14,700	43,086
Total revenue, support, and net assets released from restrictions	38,968,676	36,885,395
Expenses:		
Program services:		
Child Day Care Services - Head Start	6,476,301	5,866,514
Counseling	3,782,661	3,725,040
Employment	15,151,354	13,087,003
Foster Family Care	3,170,719	3,415,965
Residential services - ICFDD	3,351,834	3,557,860
Residential services - CILA	2,228,083	1,901,239
Educational services	769,369	801,502
Youth - After school	-	557,170
Total program services	34,930,321	32,912,293
Support services:		
Management and general	3,850,640	3,565,938
Fundraising	131,360	55,746
Total expenses	38,912,321	36,533,977
Increase in Unrestricted Net Assets - Before other items	56,355	351,418
Other Items		
Adjustment to GAAP pension expense from funded pension amount	471,147	(125,337)
Pension-related change other than periodic pension expense	409,541	1,432,467
Discountinued operations (Note 18)	(87,805)	(190,237)
Loss on sale of fixed assets	122,843	-
Increase in Unrestricted Net Assets	972,081	1,468,311
Changes in Temporarily Restricted Net Assets - Net assets released from restrictions	(14,700)	(43,086)
Changes in Permanently Restricted Net Assets		
Realized and change in unrealized gain on investments	20,073	63,765
Investment income	31,405	23,548
Increase in Permanently Restricted Net Assets	51,478	87,313
Increase in Net Assets	1,008,859	1,512,538
Net Assets - Beginning of year	4,042,966	2,530,428
Net Assets - End of year	**$ 5,051,825**	**$ 4,042,966**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services								Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Educational Services	Total	Management and General	Fundraising	Total	Total
Salaries	$ 2,134,598	$ 2,203,488	$ 2,799,086	$ 1,594,842	$ 1,520,173	$ 1,334,838	$ 404,191	$ 11,991,216	$ 2,105,116	$ 2,250	$ 2,107,366	$ 14,098,582
Employee benefits	350,145	360,983	520,558	311,697	281,453	220,910	72,552	2,118,298	312,503	217	312,720	2,431,018
Payroll taxes	162,572	223,768	246,565	163,812	164,507	147,037	34,454	1,142,715	129,490	29	129,519	1,272,234
Total salaries and related expenses	2,647,315	2,788,239	3,566,209	2,070,351	1,966,133	1,702,785	511,197	15,252,229	2,547,109	2,496	2,549,605	17,801,834
Professional fees - Contract services	2,369,007	482,936	1,638,036	53,979	324,071	30,785	46,061	4,944,875	417,855	80,826	498,681	5,443,556
Supplies	519,996	12,600	952,176	36,112	281,037	191,888	35,278	2,029,087	41,870	6,453	48,323	2,077,410
Telephone	40,342	58,348	101,069	30,170	25,007	30,979	16,797	302,712	47,632	-	47,632	350,344
Postage and shipping	1,085	2,200	1,061,431	4,675	1,065	189	1,540	1,072,185	5,786	243	6,029	1,078,214
Occupancy	642,438	142,539	410,425	109,307	326,640	38,249	20,953	1,690,551	371,174	21	371,195	2,061,746
Outside printing and artwork	98,356	16,542	43,444	214	1,394	352	2,375	162,677	23,236	1,283	24,519	187,196
Local transportation	21,242	27,034	828,305	108,202	24,375	37,078	16,398	1,062,634	18,954	-	18,954	1,081,588
Educational conferences and agency meetings	4,819	9,479	76,178	8,867	8,255	5,314	11,476	124,388	66,187	-	66,187	190,575
Subscriptions and reference publications	-	47	115	27	-	-	-	189	2,776	-	2,776	2,965
Special assistance to individuals	28,604	1,081	5,803,874	671,510	12,764	4,490	63,667	6,585,990	(262)	27,516	27,254	6,613,244
Equipment rental and maintenance	80,105	41,676	188,456	39,072	72,536	39,965	37,787	499,597	77,069	-	77,069	576,666
Membership dues	67	9,875	30,370	-	14,122	1,250	720	56,404	21,255	-	21,255	77,659
Provision for doubtful accounts	9	174,226	286,654	8,884	135,171	115,184	-	720,128	-	11,250	11,250	731,378
Miscellaneous	591	12,193	38,388	3,349	144,060	2,752	3,346	204,679	72,238	1,272	73,510	278,189
Depreciation	22,325	3,646	126,224	26,000	15,204	26,823	1,774	221,996	137,761	-	137,761	359,757
Total functional expenses	**$ 6,476,301**	**$ 3,782,661**	**$ 15,151,354**	**$ 3,170,719**	**$ 3,351,834**	**$ 2,228,083**	**$ 769,369**	**$ 34,930,321**	**$ 3,850,640**	**$ 131,360**	**$ 3,982,000**	**$ 38,912,321**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2017

	Program Services									Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Youth and After School	Educational Services	Total	Management and General	Fundraising	Total	Total
Salaries	$ 2,175,914	$ 2,229,688	$ 2,605,408	$ 1,645,317	$ 1,740,983	$ 1,175,309	$ 322,697	$ 422,891	$ 12,318,207	$ 1,900,426	$ -	$ 1,900,426	$ 14,218,633
Employee benefits	375,024	391,549	534,656	324,298	355,264	185,682	65,717	81,723	2,313,913	316,972	-	316,972	2,630,885
Payroll taxes	171,322	225,427	244,826	166,570	184,366	129,164	41,645	37,682	1,201,002	130,730	-	130,730	1,331,732
Total salaries and related expenses	2,722,260	2,846,664	3,384,890	2,136,185	2,280,613	1,490,155	430,059	542,296	15,833,122	2,348,128	-	2,348,128	18,181,250
Professional fees - Contract services	2,101,727	533,801	781,538	40,811	272,479	31,534	84,308	44,918	3,891,116	229,280	51,860	281,140	4,172,256
Supplies	386,395	9,934	933,888	50,228	284,186	188,012	22,340	15,238	1,890,221	51,006	-	51,006	1,941,227
Telephone	45,519	83,760	102,066	61,667	37,712	45,341	8,846	14,911	399,822	112,402	-	112,402	512,224
Postage and shipping	1,283	3,654	592,055	4,506	1,207	271	1,043	2,400	606,419	8,148	-	8,148	614,567
Occupancy	418,751	122,938	380,962	195,145	335,598	30,281	(27,223)	67,091	1,523,543	359,837	-	359,837	1,883,380
Outside printing and artwork	308	12,371	31,449	3,604	389	238	172	2,583	51,114	17,779	702	18,481	69,595
Local transportation	22,263	36,213	784,375	106,287	41,614	26,105	4,197	15,418	1,036,472	16,788	-	16,788	1,053,260
Educational conferences and agency meetings	1,693	7,585	25,670	9,021	10,382	4,269	82	12,976	71,678	132,642	317	132,959	204,637
Subscriptions and reference publications	-	33	88	296	-	-	-	-	417	3,483	-	3,483	3,900
Special assistance to individuals	67,684	365	5,715,028	731,700	32,986	14,641	6,241	53,913	6,622,558	3,262	725	3,987	6,626,545
Equipment rental and maintenance	61,151	40,019	153,980	44,097	46,527	29,234	12,487	27,103	414,598	49,247	-	49,247	463,845
Membership dues	60	10,174	21,381	-	10,973	1,250	1,751	480	46,069	35,543	-	35,543	81,612
Provision for doubtful accounts	9,539	-	(6,201)	3,475	-	8,196	(22,521)	-	(7,512)	-	-	-	(7,512)
Miscellaneous	674	10,208	54,339	649	184,176	493	21,149	126	271,814	59,034	846	59,880	331,694
Depreciation	27,207	7,321	131,495	28,294	19,018	31,219	14,239	2,049	260,842	139,359	1,296	140,655	401,497
Total functional expenses	**$ 5,866,514**	**$ 3,725,040**	**$ 13,087,003**	**$ 3,415,965**	**$ 3,557,860**	**$ 1,901,239**	**$ 557,170**	**$ 801,502**	**$ 32,912,293**	**$ 3,565,938**	**$ 55,746**	**$ 3,621,684**	**$ 36,533,977**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 1,008,859	$ 1,512,538
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Realized and change in unrealized loss on investments	(20,073)	(63,765)
Bad debt expense (recovery)	731,375	(7,512)
Depreciation	359,756	401,488
Impairment loss	68,080	138,920
(Gain) loss on sale of property	(122,843)	21,312
Amortization of debt issuance cost	2,380	2,382
Net periodic benefit cost	428,853	1,100,337
Pension-related change other than periodic pension expense	(409,541)	(1,432,467)
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Accounts receivable	(1,321,723)	(645,612)
Change in advances/due from affiliates	(382,020)	21,983
Other receivables	6,032	(4,321)
Other assets	(121,823)	(2,959)
Accounts payable and accrued expenses	468,563	(178,152)
Accrued wages and related expenses	162,738	(67,809)
Settlements payable and other liabilities	188,302	99,711
Deferred revenue	(72,471)	216,042
Pension benefit obligation	(900,000)	(975,000)
Net cash and cash equivalents provided by operating activities	74,444	137,116
Cash Flows from Investing Activities		
Purchase of property and equipment	(371,578)	(30,852)
Proceeds from sale of property and equipment	181,484	38,082
Purchases of investments	(26,174)	(25,420)
Net cash and cash equivalents used in investing activities	(216,268)	(18,190)
Cash Flows Used in Financing Activities - Payments made on mortgage notes payable	(200,279)	(188,501)
Net Decrease in Cash and Cash Equivalents	(342,103)	(69,575)
Cash and Cash Equivalents - Beginning of year	4,975,725	5,045,300
Cash and Cash Equivalents - End of year	**$ 4,633,622**	**$ 4,975,725**
Supplemental Cash Flow Information - Cash paid for interest	$ 280,026	$ 210,110
Significant Noncash Transactions - Puchase of property and equipment included in accounts payable	$ 67,930	$ -

Note 1 - Nature of Business

Ada S. McKinley Community Services, Inc. (McKinley) is an Illinois not-for-profit corporation established to maintain a full range of educational, residential, vocational, recreational, and welfare services; to improve the environmental conditions of the areas in which it operates; to serve people without regard to race, creed, or national origin; and to seek to encourage the highest standards of responsible citizenship among all residents of its service areas.

During 1980, McKinley incorporated Samaritas, Inc. (Samaritas) under the Illinois General Not-For-Profit Corporation Act. The purpose of Samaritas is "to own, acquire, buy, sell, mortgage, lease, and manage real estate and other related property and to maintain, operate, and manage the same as a not-for-profit organization." Samaritas is exempt from income taxes under Section 501(c)(2) of the Internal Revenue Code. McKinley is the sole member of the corporation. Samaritas has been consolidated into these consolidated financial statements.

Affiliates

<u>McKinley II, Inc.</u>

During 1995, McKinley incorporated McKinley II, Inc. (affiliate) under the Illinois General Not-For-Profit Corporation Act. The purpose of the affiliate is to comply with the U.S. Department of Housing and Urban Development's (HUD) requirements for participation in its Section 811 Project (the development of adult residential facilities for individuals with a developmental disability). HUD required McKinley to establish a single-purpose not-for-profit corporation (McKinley II, Inc.), which serves as sole owner and borrower for the project.

<u>McKinley III, Inc.</u>

During 1996, McKinley incorporated McKinley III, Inc. (affiliate) under the Illinois General Not-For-Profit Corporation Act. The purpose of the affiliate is to comply with the U.S. Department of Housing and Urban Development's (HUD) requirements for participation in its Section 811 Project (the development of adult residential facilities for individuals with a developmental disability). HUD required McKinley to establish a single-purpose not-for-profit corporation (McKinley III, Inc.), which serves as sole owner and borrower for the project.

<u>McKinley IV, Inc.</u>

During 1999, McKinley incorporated McKinley IV, Inc. (affiliate) under the Illinois General Not-For-Profit Corporation Act. The purpose of the affiliate is to comply with the U.S. Department of Housing and Urban Development's (HUD) requirements for participation in its Section 811 Project (the development of adult residential facilities for individuals with a developmental disability). HUD required McKinley to establish a single-purpose, not-for-profit corporation (McKinley IV, Inc.), which serves as sole owner and borrower for the project.

The boards of directors of these affiliates are separate from that of McKinley. The operations of the affiliates are not included in these consolidated financial statements. See Note 17 for additional transactions between McKinley and the affiliates.

Note 2 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Ada S. McKinley Community Services, Inc. and Subsidiary (the "Organizations") have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. For financial statement purposes, net assets of the Organizations are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organizations' ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Note 2 - Significant Accounting Policies (Continued)

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted, unless specifically restricted by the donor or by applicable state law.

Unrestricted: Net assets available for support of the Organizations' operations that are not subject to donor-imposed restrictions

Temporarily restricted: Net assets subject to donor-imposed restrictions that will be satisfied by actions of the Organizations or the passage of time. When a donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. The Organizations' temporarily restricted assets relate to contributions made toward scholarships and special events and to a building mortgage note funded by a grant from the Department of Housing and Urban Development (HUD).

Permanently restricted: Net assets subject to donor-imposed stipulations stating that they may be maintained permanently. The permanently restricted net assets relate to contributions made toward their endowment.

Cash Equivalents

The Organizations consider all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. They maintain their cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Organizations have not experienced any losses in such accounts. They believe they are not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at invoice amounts. An allowance for doubtful accounts is established based on a general valuation allowance based on historical loss experience. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts on the accounts receivable balances was $866,027 and $253,585 as of June 30, 2018 and 2017, respectively.

Investments

Investments in marketable equity securities with readily determinable fair values are valued at their fair values in the consolidated statement of financial position. Interest and dividend income and unrealized and realized gains are reported as income on the consolidated statement of activities and changes in net assets and as an increase in net assets. Interest and dividend income is recorded on the accrual basis. Realized gains and losses are recognized on a specific identification basis of cost.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred. The Organizations capitalize expenditures of $1,000 or more for property, equipment, repairs, and maintenance that improve or extend the life of an existing asset.

Note 2 - Significant Accounting Policies (Continued)

The Organizations report gifts of property, plant, and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of property, plant, and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property, plant, and equipment must be maintained, the Organizations report expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property, plant, and equipment.

Impairment of Property and Equipment

During 2018 and 2017, the long-term assets held for sale were deemed to be impaired and written down to their fair value. Carrying value exceeded fair value, which was determined by reference to the present value of the estimated future cash inflows of such assets, by $68,080 and $138,920 as of June 30, 2018 and 2017, respectively. An impairment loss of this amount has been charged to discontinued operations.

Fees from Governmental Agencies, Rehabilitation Workshops, and Contract Revenue

The Organizations enter into contracts with certain governmental and private agencies. Revenue from rehabilitation workshops and contracts is recognized in the period when services are rendered. The activities of the Organizations relating to certain contracts are subject to review or audit by the responsible governmental agency to determine compliance with award documents and may be subject to possible adjustment based on negotiations with the funding agencies. The Organizations have not provided allowances in the consolidated financial statements for potential adjustments, since such amounts, if any, are not expected to be significant.

Grant Revenue

Revenue from grants from governmental agencies designated for use in specific activities is recognized in the period that expenditures have been incurred in compliance with the grantor’s restrictions. Grant money received in excess of that earned is recorded as deferred revenue.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Donated Services and Assets

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by McKinley. Volunteers also provided 784 and 3,734 volunteer hours in 2018 and 2017, respectively, performing a variety of tasks that assist them at the employment facilities. McKinley also had volunteers performing a variety of tasks at its daycare facilities, whose services are not recognized as contributions in the consolidated financial statements, since the recognition criteria were not met.

Donated services and materials, which are a normal part of the programs over which McKinley exercises control, are recorded where there is a clearly measurable basis for their valuation (e.g., rent, supplies, etc.).

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Federal Income Taxes

McKinley is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Samaritas is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(2).

Use of Estimates

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

Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organizations, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organizations' year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Organizations do not expect the new standard to have a material impact on the consolidated financial statements.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition.* The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organizations' year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organizations do not expect the new standard to have a material impact on the consolidated financial statements.

Note 2 - Significant Accounting Policies (Continued)

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organizations' year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the consolidated financial statements would be to capitalize the value and obligations related to the leases identified in Note 16.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organizations’ year ending June 30, 2020 and will be applied on a modified prospective basis. The Organizations do not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but have not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including December 19, 2018, which is the date the consolidated financial statements were available to be issued.

Note 3 - Accounts Receivable

Accounts receivable include the following as of June 30:

	2018	2017
Illinois Department of Healthcare and Family Services	$ 808,624	$ 905,920
Illinois Department of Human Services	404,528	(6,714)
Illinois Department of Children and Family Services	145,858	107,818
Various rehabilitation workshops, contract revenue	1,778,452	1,242,644
Other receivables	2,212,865	2,510,311
Total accounts receivable - Net	$ 5,350,327	$ 4,759,979

Note 4 - Investments

McKinley’s investments are recorded at fair value as of June 30, 2018 and 2017.

The Organizations’ 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 consolidated statement of financial position.

Note 4 - Investments (Continued)

Investments consisted of the following at June 30:

	2018	2017
Mutual funds	$ 714,631	$ 653,437
Exchange-traded funds	111,568	126,515
Total	$ 826,199	$ 779,952

Not included in the table above is $5,545 and $313 of investments that is included in cash and cash equivalents in the consolidated statement of financial position as of June 30, 2018 and 2017, respectively.

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organizations have the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances whereby inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organizations' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Organizations measure their investments at fair value on a recurring basis. The fair value of their investments, as described in Note 4, is based primarily on Level 1 inputs, as described above.

The Organizations currently have no assets or liabilities required to follow the fair value guidance, which utilizes Level 2 inputs.

The Organizations also have assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. These assets include the assets held for sale, which are assessed annually for impairment. The Organizations have estimated the fair values of these assets based primarily on Level 3 inputs, as described above. Significant Level 3 inputs include comparable properties in the same geographic area. The fair value of these assets was $207,000 and $275,080 at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the Organizations recognized noncash impairment charges of $68,080 and $138,920, respectively, to adjust these assets to their estimated fair values.

Note 6 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2018	2017	Depreciable Life - Years
Land	$ 1,950,808	$ 2,013,214	-
Buildings and improvements	11,956,771	11,739,809	10-40
Furniture and equipment	1,728,716	1,599,654	3-10
Vehicles	199,055	192,543	5
Leasehold improvements	1,593,669	1,713,442	5
Total cost	17,429,019	17,258,662	
Accumulated depreciation	11,047,651	10,898,405	
Net property and equipment	$ 6,381,368	$ 6,360,257	

Depreciation expense was $359,756 for 2018 and $401,488 for 2017.

Note 7 - Deposits Held in Escrow

Approximately $366,600 and $201,700 held in various escrow accounts as of June 30, 2018 and 2017, respectively, is restricted to specific expenditures and requires prior approval by the U.S. Department of Housing and Urban Development (HUD).

Note 8 - Line of Credit

McKinley has an available line of credit of $4,000,000 at June 30, 2018 and 2017, which is used to bridge funding during periods when receipts from funding sources fall below cash disbursement requirements. The line of credit currently has an expiration date of May 28, 2019. Borrowings under the line of credit in 2018 and 2017 are payable on demand at 2.50 percent over the 30-day LIBOR; are secured by McKinley's receivables, excluding federal government contracts; and are cross-collateralized with the first mortgage on three properties. The effective rate as of June 30, 2018 and 2017 was 4.50 percent and 3.56 percent, respectively. McKinley must comply with certain financial covenants, including maintaining a minimum debt service coverage ratio and expendable cash to funded debt ratio. There were no outstanding borrowings on the line of credit at June 30, 2018 or 2017.

Note 9 - Mortgage Notes Payable

The Organizations have the following mortgages, secured by the properties indicated below, with financial institutions:

	2018	2017
McKinley - Section 202 (Direct Loan Program) award from the Department of Housing and Urban Development (HUD), payable in monthly installments of $13,284, including interest at 9.25 percent based on a 454-month amortization schedule, with the final payment due in October 2024. Under this commitment, McKinley constructed five residential care facilities for the developmentally disabled on Chicago's South Side. The note is collateralized by the mortgaged land and buildings	$ 757,318	$ 842,352
Samaritas - Mortgage note payable to bank in monthly installments of $18,628, including interest rate at 3.75 percent, based on a five-year amortization schedule, with a balloon payment due on May 28, 2020. This note is secured by the mortgaged properties. Samaritas is also required to maintain a minimum annual debt coverage of 1.20:1.00 and expendable cash and investments to total funded debt ratio of no less than 0.30:1.00 on a quarterly basis. The note is guaranteed by McKinley	2,785,277	2,900,522
Unamortized debt issuance costs	(4,564)	(6,944)
Total	3,538,031	3,735,930
Less current portion	212,946	200,279
Long-term portion	$ 3,325,085	$ 3,535,651

The balance of the above debt matures as follows:

Years Ending	Amount
2019	$ 212,946
2020	2,767,033
2021	111,253
2022	121,992
2023	133,767
Unamortized debt issue costs	(4,564)
Thereafter	195,604
Total	$ 3,538,031

Note 10 - Settlement Payable and Other Liabilities

McKinley has agreements with third-party payors that provide for payments to McKinley for services at established rates, but amounts could be different from the third-party payors' payment amounts. Payment arrangements include prospectively determined reimbursed cost rates. Management has recorded settlements payable under certain programs and has included the estimates of these settlements, including estimated retroactive adjustments under reimbursement agreements with third-party payors in revenue. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Note 10 - Settlement Payable and Other Liabilities (Continued)

	2018	2017
Illinois Department of Children and Family Services	$ 685,779	$ 495,094
Illinois Department of Public Health	12,726	12,726
Illinois Healthcare and Family Services	159,500	152,847
Custodian Fund - Clients	148,981	127,227
City of Chicago	-	43,686
State of Illinois	37,024	37,024
Other	27,162	14,266
Total	$ 1,071,172	$ 882,870

Note 11 - Pension Plan

McKinley has a pension plan covering all employees who have attained age 21 and worked at least 1,000 hours of service during a 12-month period, who are not part of the Agency Federal Contract Employees program. The plan provides defined benefits based on years of credited service. McKinley's policy is to fund pension costs in an amount not less than the amount required by the Employee Retirement Income Security Act (ERISA). On March 29, 2013, the plan was amended, changing the benefit formula for employees who are not part of the Service Employees International Union Illinois and Indiana chapters to incorporate a cash balance formula for all service beyond that date.

Obligations and Funded Status

	Pension Benefits	
	2018	2017
Projected benefit obligation	$ 34,155,603	$ 34,933,442
Fair value of plan	29,379,118	29,276,269
Funded status	$ (4,776,485)	$ (5,657,173)

Amounts recognized in the consolidated statement of financial position consist of the following:

	Pension Benefits	
	2018	2017
Pension benefit obligation	$ (4,776,485)	$ (5,657,173)

Amounts not yet recognized as components of net periodic benefit cost consist of the following:

	Pension Benefits	
	2018	2017
Net loss	$ 7,116,104	$ 7,646,542
Prior service cost	(286,528)	(407,425)
Total	$ 6,829,576	$ 7,239,117

The accumulated benefit obligation (which excludes actuarially calculated benefit obligation adjustments due to future compensation) for all defined benefit pension plans was $34,098,192 and $34,799,323 at June 30, 2018 and 2017, respectively.

Note 11 - Pension Plan (Continued)

	Pension Benefits	
	2018	2017
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	$ 428,853	$ 1,100,337
Employer contributions	900,000	975,000
Settlements	-	(1,856,368)
Benefits paid	(2,355,534)	(1,073,326)
Pension-/Benefit-related Changes Other than Net Periodic Costs		
Net gain	$ (23,950)	$ (454,077)
Amortization of loss	(506,488)	(692,947)
Settlement gain	-	(406,340)
Amortization of prior service cost	120,897	120,897
Total recognized in pension-/benefit-related changes other than net periodic costs	$ (409,541)	$ (1,432,467)

The settlement gain of $406,340 was due to the plan having settlements that exceeded the sum of the service and interest cost for the year, requring a portion of the unrecognized gain from prior year to be recognized.

Assumptions

The following assumptions were used to determine the benefit obligation and the net periodic benefit costs as of June 30:

	Pension Benefits	
	2018	2017
Discount rate - Benefit obligation	4.10 %	4.10 %
Discount rate - Net periodic benefit cost	4.10 %	4.10 %
Expected long-term return on plan assets	5.50 %	5.50 %
Expected rate of compensation increase	2.00 %	2.00 %

The expected return on plan assets is based on McKinley's expectation of the long-term average rate of return of the capital markets in which the plans invest. The average market returns are adjusted, where appropriate, for active asset management returns. The expected return reflects the investment policy target asset mix and considers the historical returns earned for each asset category.

Actuarial assumptions utilized in determining the actuarial present value of accumulated plan benefits were changed since the prior valuation date. The interest and discount rate for the obligation were 4.10 percent. The mortality tables were changed to be the RP-2006 Mortality Table projected to 2018 for employees and healthy annuitants with Mortality Improvement Scale MP-2017.

Pension Plan Assets

McKinley's investment policies employ an approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The investment portfolio primarily contains a diversified blend of equity and fixed-income investments. Investment and market risks are measured and monitored on an ongoing basis through regular investment portfolio reviews and annual liability measurements. McKinley's actual asset allocations are in line with target allocations in order to stay within a range of allocation for each asset category.

The target allocation of plan assets is 77 percent equity securities, 20 percent debt securities, and 3 percent cash equivalents as of June 30, 2018 and 2017.

Note 11 - Pension Plan (Continued)

The fair values of the Organizations' pension plan assets at June 30, 2018 and 2017 by major asset classes are as follows:

	Fair Value Measurements at June 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Fixed income:				
Money market funds	$ -	$ 598,922	$ -	$ 598,922
U.S. government obligations	-	1,481,766	-	1,481,766
Municipal obligations	-	201,941	-	201,941
Mortgage-backed securities	-	548,676	-	548,676
Collateralized mortgage obligations	-	75,392	-	75,392
Corporate bonds	-	2,243,027	-	2,243,027
Foreign bonds, notes, and debentures	-	163,153	-	163,153
Equity:				
Common stock:				
International	1,771,779	-	-	1,771,779
United States	4,802,273	-	-	4,802,273
Mutual funds:				
Equity	12,326,582	-	-	12,326,582
Fixed income	4,589,752	-	-	4,589,752
Preferred stock	575,855	-	-	575,855
Total	$ 24,066,241	$ 5,312,877	$ -	$ 29,379,118

	Fair Value Measurements at June 30, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Fixed income:				
Money market funds	$ -	$ 532,504	$ -	$ 532,504
U.S. government obligations	-	1,741,319	-	1,741,319
Municipal obligations	-	97,972	-	97,972
Mortgage-backed securities	-	585,370	-	585,370
Collateralized mortgage obligations	-	218,783	-	218,783
Corporate bonds	-	2,453,335	-	2,453,335
Foreign bonds, notes, and debentures	-	134,060	-	134,060
Equity:				
Common stock:				
International	1,698,165	-	-	1,698,165
United States	5,485,086	-	-	5,485,086
Mutual funds:				
Equity	11,699,031	-	-	11,699,031
Fixed income	4,018,029	-	-	4,018,029
Preferred stock	612,615	-	-	612,615
Total	$ 23,512,926	$ 5,763,343	$ -	$ 29,276,269

The tables above present information about the pension plan assets measured at fair value at June 30, 2018 and 2017 and the valuation techniques used by the Organizations to determine those fair values.

Note 11 - Pension Plan (Continued)

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the plan has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals. The fair values of money market funds; U.S. government obligations; municipal obligations; mortgage-backed securities; collateralized mortgage obligations; corporate bonds; foreign bonds; notes and debentures; and rights, warrants, and derivatives were determined primarily by Level 2 inputs.

The Organizations estimate fair values for the money market funds; U.S. government obligations; municipal obligations; mortgage-backed securities; collateralized mortgage obligations; corporate bonds; foreign bonds; notes and debentures; and rights, warrants, and derivatives based on similar investments that are traded on the secondary market.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

The plan currently has no assets or liabilities that utilize Level 3 inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organizations' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Cash Flow

Contributions

McKinley is not obligated under current actuarial calculations to contribute any cash to these plans in fiscal year 2019, but expects to do so in the normal course of business in the future. The Organizations expect to contribute $900,000 to the pension plan in 2019.

Estimated Future Benefit Payments

Projected benefit payments to retired employees from the plans as of June 30, 2018 are estimated as follows:

Years Ending	Pension Benefits
2019	$ 3,354,689
2020	2,462,026
2021	2,494,322
2022	2,101,304
2023	1,916,401
2024-2028	9,711,006

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are restricted for the following:

	2018	2017
Head Start building funded by Head Start Facility Grant	$ 9,013	$ 23,713

Note 13 - Donor-restricted Endowment

McKinley's endowment includes only donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

McKinley's endowment fund provides support for McKinley's mission to assist individuals and families who, because of disabilities or other limiting conditions, need help in finding and pursuing paths leading to healthy, productive, and fulfilling lives.

Interpretation of Relevant Law

The board of directors of McKinley has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organizations classify 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 require the accumulation of income to be added to the fund until the endowment balance reaches $1 million. Once the fund reaches the minimum threshold, any additional accumulations may then be appropriated for expenditure by the Organizations in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organizations and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organizations
- The investment policies of the Organizations

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018
	Permanently Restricted
Endowment net assets - Beginning of year	$ 780,391
Investment return:	
Investment income	31,405
Net appreciation (realized and unrealized)	20,073
Total investment return	51,478
Endowment net assets - End of year	$ 831,869

Note 13 - Donor-restricted Endowment (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017 Permanently Restricted
Endowment net assets - Beginning of year	$ 693,078
Investment return:	
Investment income	23,548
Net appreciation (realized and unrealized)	63,765
Total investment return	87,313
Endowment net assets - End of year	$ 780,391

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organizations to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2018.

Return Objectives and Risk Parameters

McKinley has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Organizations must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce an average rate of return of approximately 6 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, McKinley relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). McKinley targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

As stated above, the Organizations are restricted from making any distributions until the endowment maintains a balance of $1 million. This is consistent with McKinley's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Note 14 - Fees and Grants from Governmental Agencies

	2018	2017
U.S. Department of Education	$ 749,526	$ 723,994
U.S. Department of Housing and Urban Development	544,842	557,485
Social Security Administration - Rental supplements	726,476	771,960
Illinois Department of - Children and Family Services	3,870,285	3,736,994
Illinois Department of - Commerce and Economic Opportunity	-	13,000
Illinois Department of - Healthcare and Family Services (Public Aid)	4,521,429	4,477,596
Illinois Department of - Human Services:		
Mental Health and Developmental Disabilities	9,113,469	8,981,694
Rehabilitation Services	126,450	140,129
State of Illinois - Board of Education - Food reimbursement programs	182,627	209,354
Chicago Public Schools	909,821	1,561,724
City of Chicago, Illinois	5,593,756	4,876,680
Total fees and grants from governmental agencies	$ 26,338,681	$ 26,050,610

Note 15 - Rehabilitation Workshops and Contract Revenue and Other Revenue

	2018	2017
Program service fees and incidental revenue	$ 32,547	$ 50,548
Rehabilitation workshops and contract revenue	12,124,561	10,490,767
Management fees and other services - Affiliates	36,480	34,624
Investment income	16,698	7,523
Miscellaneous	270,290	37,974
Total rehabilitation workshops and contract revenue and other revenue	$ 12,480,576	$ 10,621,436

Note 16 - Operating Lease

Program facilities and administrative offices are leased at a number of locations under operating lease agreements expiring through the year 2023.

Rent expense for all properties amounted to $41,735 and $103,303 in 2018 and 2017, respectively.

McKinley also used office and telephone equipment under various operating leases subject to specific lease terms and rentals. Total equipment lease payments charged to operations in 2018 and 2017 were $161,366 and $152,366, respectively.

Estimated future minimum base rental payments for equipment and office and program facilities are as follows:

Years Ending June 30	Equipment and Office	Program Facilities	Total
2019	$ 163,966	$ 24,060	$ 188,026
2020	159,929	-	159,929
2021	150,247	-	150,247
2022	117,340	-	117,340
2023	2,355	-	2,355
Total	$ 593,837	$ 24,060	$ 617,897

Note 17 - Related Party Transactions

McKinley provides various services to the affiliates that are described in Note 1. Receivables related to these various services are periodically evaluated for collectibility based on current financial condition. Provisions for losses on receivables are determined based on current financial condition. The Organizations consider a receivable to be impaired when, based upon current information and events, it believes it is probable that the Organizations will be unable to collect all amounts due to them. The Organizations do not have any receivables considered to be impaired as of June 30, 2018 and 2017. McKinley had the following balances due to/from its affiliates:

	2018	2017
McKinley II, Inc.	$ 96,164	$ 20,202
McKinley III, Inc.	138,584	47,466
McKinley IV, Inc.	246,581	31,641
Total advances to affiliates	$ 481,329	$ 99,309

The related party transactions McKinley has with its affiliates, McKinley II, Inc.; McKinley III, Inc.; and McKinley IV, Inc., are as follows:

McKinley II, Inc.

	2018	2017
Management fee	$ 10,512	$ 10,512
Accounting/Bookkeeping	2,592	2,592
Janitorial service	12,987	12,510
Service coordinator	-	17,751
Total	$ 26,091	$ 43,365

McKinley III, Inc.

	2018	2017
Management fee	$ 4,608	$ 4,608
Accounting/Bookkeeping	1,296	1,296
Janitorial service	20,260	5,918
Service coordinator	-	8,314
Total	$ 26,164	$ 20,136

McKinley IV, Inc.

	2018	2017
Management fee	$ 14,016	$ 12,160
Accounting/Bookkeeping	3,456	3,456
Janitorial service	11,889	11,507
Total	$ 29,361	$ 27,123

Note 18 - Assets Held for Resale and Discontinued Operations

As of July 1, 2015, two of Samaritas' buildings were vacant due to a canceled third-party lease and ended program with McKinley. During the fiscal year ended June 30, 2015, an additional building was vacated due to another ended program with McKinley. The Organizations were unable to find additional renters for the three buildings and determined to place them for sale. The net value of the buildings (cost less accumulated depreciation) has been classified as assets held for resale as of June 30, 2018 and 2017. During 2016, one of the buildings held for sale was sold. In 2017, an additional building was sold. As of June 30, 2018, only one building remained classified as held for sale.

While the buildings are held for sale, any revenue or expenses related to them are classified as discontinued operations within the consolidated statement of activities and changes in net assets. These discontinued operations expect to continue until either the buildings are sold or the Organizations determine other programs to fill them. The discontinued operations are made up of the following revenue and expenses as of June 30, 2018 and 2017:

	2018	2017
Expenses:		
Maintenance and utilities	$ (17,115)	$ (27,395)
Insurance	(2,610)	(2,610)
Loss on sale	-	(21,312)
Impairment loss	(68,080)	(138,920)
Total	$ (87,805)	$ (190,237)

Additional Information

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report on Additional Information

To the Board of Directors
Ada S. McKinley Community Services, Inc. and Subsidiary

We have audited the consolidated financial statements of Ada S. McKinley Community Services, Inc. and Subsidiary as of and for the years ended June 30, 2018 and 2017 and have issued our report thereon dated December 19, 2018, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2018 consolidated financial statements as a whole. The additional parent-only statements of Ada S. McKinley Community Services, Inc. are presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and are not a required part of the consolidated financial statements. These parent-only statements exclude Samaritas, Inc., a subsidiary that is required to be consolidated under accounting principles generally accepted in the United States of America. 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 2018 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2018 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2018 consolidated financial statements as a whole.

Plante & Moran, PLLC

December 19, 2018

Statement of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 2,944,873	$ 3,674,186
Receivables:		
Accounts receivable - Net	5,350,327	4,759,979
Other receivables	7,481	13,513
Prepaid expenses	79,502	122,566
Total current assets	8,382,183	8,570,244
Investments	826,199	779,952
Other Assets		
Deposits	2,082	2,082
Deposits held in escrow	366,608	201,721
Property and Equipment - Net	3,073,413	2,846,185
Advances to Affiliates	512,538	99,309
Total assets	**$ 13,163,023**	**$ 12,499,493**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,746,658	$ 1,210,144
Accrued liabilities and other:		
Accrued wages and related taxes	1,973,347	1,810,609
Accrued interest	13,284	13,284
Settlements payable and other liabilities	1,071,172	882,870
Deferred revenue	164,220	236,691
Current portion of notes payable:		
Notes payable	93,242	85,034
Mortgage note due to affiliate	403,195	449,958
Total current liabilities	5,465,118	4,688,590
Mortgage Notes Payable - Net of current portion	664,076	757,318
Pension Benefit Obligation	4,776,485	5,657,173
Total liabilities	10,905,679	11,103,081
Net Assets		
Unrestricted	1,425,475	616,021
Permanently restricted	831,869	780,391
Total net assets	2,257,344	1,396,412
Total liabilities and net assets	**$ 13,163,023**	**$ 12,499,493**

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Revenue and support:		
Fees and grants from governmental agencies	$ 26,338,681	$ 26,050,610
Rehabilitation workshops, contract revenue, and other revenue	12,521,328	10,666,016
Contributions (including $8,619 and $39,209 in kind for 2018 and 2017, respectively)	134,719	169,287
United Way of Chicago allocation	-	976
Total revenue and support	38,994,728	36,886,889
Expenses:		
Program services:		
Child Day Care Services - Head Start	6,471,502	5,861,715
Counseling	3,825,537	3,793,934
Employment	15,205,207	13,138,863
Foster Family Care	3,272,876	3,415,965
Residential services - ICFDD	3,358,226	3,582,107
Residential services - CILA	2,220,318	1,893,305
Educational services	797,545	801,502
Youth - After school	-	656,060
Total program services	35,151,211	33,143,451
Support services:		
Management and general	3,773,241	3,502,660
Fundraising	131,360	55,746
Total expenses	39,055,812	36,701,857
(Decrease) Increase in Unrestricted Net Assets - Before other items	(61,084)	185,032
Other Items		
Adjustment to GAAP pension expense from funded pension amount	471,147	(125,337)
Pension-related change other than periodic pension expense	409,541	1,432,467
Loss on sale of fixed assets	(10,150)	-
Total other items	870,538	1,307,130
Increase in Unrestricted Net Assets	809,454	1,492,162
Changes in Permanently Restricted Net Assets		
Realized and change in unrealized gain on investments	20,073	63,765
Investment income	31,405	23,548
Increase in Permanently Restricted Net Assets	51,478	87,313
Increase in Net Assets	860,932	1,579,475
Net Assets (Deficit) - Beginning of year	1,396,412	(183,063)
Net Assets - End of year	**$ 2,257,344**	**$ 1,396,412**

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services								Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Educational Services	Total	Management and General	Fundraising	Total	Total
Salaries	$ 2,134,598	$ 2,203,488	$ 2,799,086	$ 1,594,842	$ 1,520,173	$ 1,334,838	$ 404,191	$ 11,991,216	$ 2,105,116	$ 2,250	$ 2,107,366	$ 14,098,582
Employee benefits	350,145	360,983	520,558	311,697	281,453	220,910	72,552	2,118,298	312,503	217	312,720	2,431,018
Payroll taxes	162,572	223,768	246,565	163,812	164,507	147,037	34,454	1,142,715	129,490	29	129,519	1,272,234
Total salaries and related expenses	2,647,315	2,788,239	3,566,209	2,070,351	1,966,133	1,702,785	511,197	15,252,229	2,547,109	2,496	2,549,605	17,801,834
Professional fees - Contract services	2,369,007	482,936	1,638,036	53,979	324,071	30,785	46,061	4,944,875	405,694	80,826	486,520	5,431,395
Supplies	519,996	12,600	952,176	36,112	281,037	191,888	35,278	2,029,087	41,870	6,453	48,323	2,077,410
Telephone	40,342	58,348	101,069	30,170	25,007	30,979	16,797	302,712	47,632	-	47,632	350,344
Postage and shipping	1,085	2,200	1,061,431	4,675	1,065	189	1,540	1,072,185	5,786	243	6,029	1,078,214
Occupancy	642,438	185,415	466,249	211,464	333,050	54,917	49,129	1,942,662	457,731	21	457,752	2,400,414
Equipment rental and maintenance	80,105	41,676	188,456	39,072	72,536	39,965	37,787	499,597	77,069	-	77,069	576,666
Outside printing and artwork	98,356	16,542	43,444	214	1,394	352	2,375	162,677	23,236	1,283	24,519	187,196
Local transportation	21,242	27,034	828,305	108,202	24,375	37,078	16,398	1,062,634	18,954	-	18,954	1,081,588
Educational conferences and agency meetings	4,819	9,479	76,178	8,867	8,255	5,314	11,476	124,388	65,915	-	65,915	190,303
Subscriptions and reference publications	-	47	115	27	-	-	-	189	2,776	-	2,776	2,965
Special assistance to individuals	28,604	1,081	5,803,874	671,510	12,764	4,490	63,667	6,585,990	(262)	27,516	27,254	6,613,244
Membership dues	67	9,875	30,370	-	14,122	1,250	720	56,404	21,255	-	21,255	77,659
Miscellaneous	591	12,192	38,388	3,349	144,060	2,752	3,346	204,678	47,120	1,272	48,392	253,070
Bad debt expense	9	174,227	286,654	8,884	135,171	115,184	-	720,129	-	11,250	11,250	731,379
Depreciation	17,526	3,646	124,253	26,000	15,186	2,390	1,774	190,775	11,356	-	11,356	202,131
Total functional expenses	**$ 6,471,502**	**$ 3,825,537**	**$ 15,205,207**	**$ 3,272,876**	**$ 3,358,226**	**$ 2,220,318**	**$ 797,545**	**$ 35,151,211**	**$ 3,773,241**	**$ 131,360**	**$ 3,904,601**	**$ 39,055,812**

Statement of Functional Expenses

Year Ended June 30, 2017

	Program Services									Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Youth - After School	Educational Services	Total	Management and General	Fundraising	Total	Total
Salaries	$ 2,175,914	$ 2,229,688	$ 2,605,408	$ 1,645,317	$ 1,740,983	$ 1,175,309	$ 322,697	$ 422,891	$ 12,318,207	$ 1,900,426	$ -	$ 1,900,426	$ 14,218,633
Employee benefits	375,024	391,549	534,656	324,298	355,264	185,682	65,717	81,723	2,313,913	316,972	-	316,972	2,630,885
Payroll taxes	171,322	225,427	244,826	166,570	184,366	129,164	41,645	37,682	1,201,002	130,730	-	130,730	1,331,732
Total salaries and related expenses	2,722,260	2,846,664	3,384,890	2,136,185	2,280,613	1,490,155	430,059	542,296	15,833,122	2,348,128	-	2,348,128	18,181,250
Professional fees - Contract services	2,101,727	533,801	781,538	40,811	272,479	31,534	84,308	44,918	3,891,116	210,640	51,860	262,500	4,153,616
Supplies	386,395	9,934	933,888	50,228	284,186	188,012	22,340	15,238	1,890,221	51,006	-	51,006	1,941,227
Telephone	45,519	83,760	102,066	61,667	37,712	45,341	8,846	14,911	399,822	112,402	-	112,402	512,224
Postage and shipping	1,283	3,654	592,055	4,506	1,207	271	1,043	2,400	606,419	8,148	-	8,148	614,567
Occupancy	418,751	193,295	436,234	195,145	360,988	46,781	73,927	67,091	1,792,212	444,956	-	444,956	2,237,168
Equipment rental and maintenance	61,151	40,019	153,980	44,097	46,527	29,234	12,487	27,103	414,598	49,247	-	49,247	463,845
Outside printing and artwork	308	12,371	31,449	3,604	389	238	172	2,583	51,114	17,779	702	18,481	69,595
Local transportation	22,263	36,213	784,375	106,287	41,614	26,105	4,197	15,418	1,036,472	16,788	-	16,788	1,053,260
Educational conferences and agency meetings	1,693	7,585	25,670	9,021	10,382	4,269	82	12,976	71,678	132,486	317	132,803	204,481
Subscriptions and reference publications	-	33	88	296	-	-	-	-	417	3,483	-	3,483	3,900
Special assistance to individuals	67,684	365	5,715,028	731,700	32,986	14,641	6,241	53,913	6,622,558	3,262	725	3,987	6,626,545
Membership dues	60	10,174	21,381	-	10,973	1,250	1,751	480	46,069	35,543	-	35,543	81,612
Miscellaneous	674	10,208	54,339	649	184,176	493	21,149	126	271,814	51,494	846	52,340	324,154
Bad debt expense (recovery)	9,539	-	(6,201)	3,475	-	8,196	(22,521)	-	(7,512)	-	-	-	(7,512)
Depreciation	22,408	5,858	128,083	28,294	17,875	6,785	11,979	2,049	223,331	17,298	1,296	18,594	241,925
Total functional expenses	**$ 5,861,715**	**$ 3,793,934**	**$ 13,138,863**	**$ 3,415,965**	**$ 3,582,107**	**$ 1,893,305**	**$ 656,060**	**$ 801,502**	**$ 33,143,451**	**$ 3,502,660**	**$ 55,746**	**$ 3,558,406**	**$ 36,701,857**

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 860,932	$ 1,579,475
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Realized and change in unrealized gain on investments	(20,073)	(63,765)
Provisions for (recovery of) bad debt expense	731,375	(20,176)
Depreciation and amortization	202,130	241,916
Net periodic benefit cost	428,853	1,100,337
Pension-related change other than periodic pension expense	(409,541)	(1,432,467)
Loss on sale of property	10,150	-
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(1,321,723)	(632,948)
Change in advances/due from affiliate	(459,992)	40,821
Other receivables	6,032	(4,321)
Other assets	(121,823)	(2,959)
Accounts payable and accrued expenses	468,584	(178,132)
Accured wages and related expenses	162,738	(67,809)
Settlements payable and other liabilities	188,302	99,711
Deferred revenue	(72,471)	216,042
Pension benefit obligation	(900,000)	(975,000)
Net cash and cash equivalents used in operating activities	(246,527)	(99,275)
Cash Flows from Investing Activities		
Purchase of property and equipment	(371,578)	(30,852)
Purchases of investments	(26,174)	(25,420)
Net cash and cash equivalents used in investing activities	(397,752)	(56,272)
Cash Flows Used in Financing Activities - Repayment of mortgage notes payable	(85,034)	(77,549)
Net Decrease in Cash and Cash Equivalents	(729,313)	(233,096)
Cash and Cash Equivalents - Beginning of year	3,674,186	3,907,282
Cash and Cash Equivalents - End of year	**$ 2,944,873**	**$ 3,674,186**
Supplemental Cash Flow Information - Cash paid for interest	$ 185,028	$ 111,441
Significant Noncash Transactions - Puchase of property and equipment included in accounts payable	$ 67,930	$ -