Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Financial Report
with Additional Information
June 30, 2020

Contents

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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, 2020 and 2019 and the related consolidated statements of activities and changes in net assets (deficiency 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 opinion.

Opinion

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, 2020 and 2019 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.

Emphasis of Matters

As described in Note 3 to the consolidated financial statements, Ada S. McKinley Community Services, Inc. and Subsidiary adopted the provisions of Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

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

On March 11, 2020, the World Health Organization declared the outbreak of respiratory disease caused by a new coronavirus a pandemic. Further information regarding the effect of this pandemic is disclosed in Note 2 to the consolidated financial statements. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2020 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 22, 2020

Consolidated Statement of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 7,222,071	$ 2,831,797
Funds held in trust	232,839	208,418
Receivables - Net (Notes 2 and 4)	5,833,344	6,316,770
Prepaid expenses	211,470	207,848
Total current assets	13,499,724	9,564,833
Investments (Notes 5 and 6)	863,740	863,619
Other Assets		
Deposits held in escrow (Note 8)	379,913	191,564
Other assets	106,547	2,082
Assets Held for Resale - Net (Notes 6 and 19)	19,211	126,912
Property and Equipment - Net (Note 7)	6,662,590	6,865,373
Advances to Affiliates (Note 18)	286,304	97,955
Total assets	**$ 21,818,029**	**$ 17,712,338**
Liabilities and Net Assets (Deficiency in Net Assets)		
Current Liabilities		
Accounts payable	$ 1,637,436	$ 1,861,789
Accrued liabilities and other:		
Accrued wages and related taxes	1,990,946	1,622,951
Accrued interest	13,706	13,759
Settlements payable and other liabilities (Note 11)	1,025,070	874,349
Deferred revenue	250,565	50,349
Current portion of notes payable (Note 10)	2,229,350	2,767,814
Current portion of pension benefit obligation (Note 12)	1,170,570	1,127,938
Total current liabilities	8,317,643	8,318,949
Notes Payable - Net of current portion (Note 10)	5,298,628	559,651
Pension Benefit Obligation - Net of current portion (Note 12)	8,707,488	4,713,432
Total liabilities	22,323,759	13,592,032
Net Assets (Deficiency in Net Assets)		
Without donor restrictions	(1,378,137)	3,247,916
With donor restrictions (Notes 13 and 14)	872,407	872,390
Total net assets (deficiency in net assets)	(505,730)	4,120,306
Total liabilities and net assets (deficiency in net assets)	**$ 21,818,029**	**$ 17,712,338**

See notes to consolidated financial statements.

Consolidated Statement of Activities and Changes in Net Assets (Deficiency in Net Assets)

Years Ended June 30, 2020 and 2019

	2020	2019
Changes in Net Assets without Donor Restrictions		
Revenue and other support:		
Fees and grants from governmental agencies (Note 15)	$ 28,943,598	$ 27,470,470
Rehabilitation workshops, contract revenue, and other revenue (Note 16)	12,175,445	11,958,496
Contributions (including $0 and $7,062 in kind for 2020 and 2019, respectively)	301,538	291,507
Total revenue and other support	41,420,581	39,720,473
Net assets released from restrictions	-	9,013
Total revenue, other support, and net assets released from restrictions	41,420,581	39,729,486
Expenses:		
Program services:		
Child Day Care Services - Head Start	8,804,498	6,821,021
Counseling	3,276,387	3,412,559
Employment	14,463,769	15,053,730
Foster Family Care	4,038,503	3,657,242
Residential services - ICFDD	3,914,818	3,560,841
Residential services - CILA	2,307,974	2,124,694
Educational services	867,014	862,354
Total program services	37,672,963	35,492,441
Support services:		
Management and general	3,917,581	3,728,272
Fundraising	412,027	315,856
Total support services	4,329,608	4,044,128
Total expenses	42,002,571	39,536,569
(Decrease) Increase in Net Assets without Donor Restrictions - Before other items	(581,990)	192,917
Other Items		
Adjustment to GAAP pension expense from funded pension amount	(196,983)	356,436
Pension-related change other than net periodic costs	(3,839,705)	(1,421,321)
Discontinued operations (Note 19)	(7,375)	(91,059)
Decrease in Net Assets without Donor Restrictions	(4,626,053)	(963,027)
Changes in Net Assets with Donor Restrictions		
Realized and change in unrealized loss on investments - Net	(40,246)	(879)
Investment income	40,263	41,400
Net assets released from restrictions	-	(9,013)
Increase in Net Assets with Donor Restrictions	17	31,508
Decrease in Net Assets	(4,626,036)	(931,519)
Net Assets - Beginning of year	4,120,306	5,051,825
Net Assets (Deficiency in Net Assets) - End of year	**$ (505,730)**	**$ 4,120,306**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services								Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Educational Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ 2,935,222	$ 1,937,751	$ 2,746,732	$ 2,231,950	$ 1,983,661	$ 1,529,935	$ 465,586	$ 13,830,837	$ 1,901,589	$ 107,491	$ 2,009,080	$ 15,839,917
Employee benefits	403,919	283,598	556,906	338,347	337,399	223,246	69,859	2,213,274	329,341	14,729	344,070	2,557,344
Payroll taxes	247,515	181,819	257,344	220,780	218,395	160,024	38,983	1,324,860	179,370	11,361	190,731	1,515,591
Total salaries and related expenses	3,586,656	2,403,168	3,560,982	2,791,077	2,539,455	1,913,205	574,428	17,368,971	2,410,300	133,581	2,543,881	19,912,852
Professional fees - Contract services	3,440,507	584,728	828,295	203,246	203,340	28,642	33,100	5,321,858	627,167	197,718	824,885	6,146,743
Supplies	994,228	17,837	1,140,084	65,852	319,598	180,917	81,079	2,799,595	188,239	262	188,501	2,988,096
Telephone	39,671	47,894	85,281	31,291	19,835	16,775	21,490	262,237	48,997	54	49,051	311,288
Postage and shipping	416	1,643	628,328	3,206	674	253	705	635,225	12,461	35	12,496	647,721
Occupancy	589,145	108,887	312,462	99,132	405,490	28,256	52,299	1,595,671	248,211	932	249,143	1,844,814
Outside printing and artwork	845	6,551	28,792	187	133	-	7,328	43,836	26,891	5,974	32,865	76,701
Local transportation	13,214	9,241	647,839	96,351	21,901	21,781	8,031	818,358	18,527	1,776	20,303	838,661
Educational conferences and agency meetings	9,908	9,744	24,948	10,018	3,214	2,425	5,149	65,406	25,105	120	25,225	90,631
Subscriptions and reference publications	-	-	-	-	24	-	-	24	-	-	-	24
Special assistance to individuals	14,564	4,989	6,649,873	599,911	27,273	6,675	62,103	7,365,388	-	67,824	67,824	7,433,212
Equipment rental and maintenance	91,204	20,259	172,591	64,033	30,358	62,039	16,960	457,444	47,576	-	47,576	505,020
Membership dues	4,250	17,167	9,184	219	-	-	180	31,000	9,429	399	9,828	40,828
Bad debt expense	424	18,107	192,256	23,078	139,327	7,600	-	380,792	-	-	-	380,792
Miscellaneous	319	16,161	4,505	(280)	140,626	7,353	928	169,612	82,692	3,352	86,044	255,656
Depreciation	19,147	10,011	178,349	51,182	63,570	32,053	3,234	357,546	171,986	-	171,986	529,532
Total functional expenses	**$ 8,804,498**	**$ 3,276,387**	**$ 14,463,769**	**$ 4,038,503**	**$ 3,914,818**	**$ 2,307,974**	**$ 867,014**	**$ 37,672,963**	**$ 3,917,581**	**$ 412,027**	**$ 4,329,608**	**$ 42,002,571**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services								Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Educational Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ 2,328,240	$ 1,989,609	$ 3,029,714	$ 1,837,549	$ 1,691,509	$ 1,331,760	$ 510,303	$ 12,718,684	$ 1,968,487	$ 26,654	$ 1,995,141	$ 14,713,825
Employee benefits	374,133	337,314	593,230	330,742	298,652	233,385	91,728	2,259,184	335,797	3,219	339,016	2,598,200
Payroll taxes	176,696	197,168	263,602	190,328	184,310	145,217	43,979	1,201,300	127,902	2,419	130,321	1,331,621
Total salaries and related expenses	2,879,069	2,524,091	3,886,546	2,358,619	2,174,471	1,710,362	646,010	16,179,168	2,432,186	32,292	2,464,478	18,643,646
Professional fees - Contract services	2,790,848	534,806	831,419	85,179	372,800	60,557	17,856	4,693,465	286,262	204,072	490,334	5,183,799
Supplies	518,860	17,119	1,091,070	69,701	279,461	167,632	29,939	2,173,782	114,315	15,275	129,590	2,303,372
Telephone	38,608	58,206	91,184	32,324	29,047	21,727	18,778	289,874	40,682	553	41,235	331,109
Postage and shipping	2,471	3,419	1,027,411	2,734	944	72	2,224	1,039,275	9,292	46	9,338	1,048,613
Occupancy	459,725	153,654	417,919	141,897	306,026	33,278	30,209	1,542,708	275,449	246	275,695	1,818,403
Outside printing and artwork	30,192	12,484	45,512	870	972	-	6,364	96,394	38,656	1,366	40,022	136,416
Local transportation	16,318	29,033	865,382	133,631	40,285	29,189	18,694	1,132,532	23,158	451	23,609	1,156,141
Educational conferences and agency meetings	5,360	7,234	50,861	16,089	5,074	2,996	21,448	109,062	53,289	8,737	62,026	171,088
Subscriptions and reference publications	173	-	-	173	-	-	173	519	84	-	84	603
Special assistance to individuals	16,379	1,763	6,304,047	647,674	20,262	6,948	42,201	7,039,274	-	47,833	47,833	7,087,107
Equipment rental and maintenance	37,515	32,514	194,567	138,850	89,766	61,668	14,360	569,240	49,012	1,737	50,749	619,989
Membership dues	100	11,300	12,633	613	5,374	331	560	30,911	33,549	-	33,549	64,460
Bad debt expense	13,977	9,421	76,098	-	32,498	-	965	132,959	-	-	-	132,959
Miscellaneous	97	14,058	28,985	4,701	188,161	4,500	12,234	252,736	221,415	3,248	224,663	477,399
Depreciation	11,329	3,457	130,096	24,187	15,700	25,434	339	210,542	150,923	-	150,923	361,465
Total functional expenses	**$ 6,821,021**	**$ 3,412,559**	**$ 15,053,730**	**$ 3,657,242**	**$ 3,560,841**	**$ 2,124,694**	**$ 862,354**	**$ 35,492,441**	**$ 3,728,272**	**$ 315,856**	**$ 4,044,128**	**$ 39,536,569**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Decrease in net assets	$ (4,626,036)	$ (931,519)
Adjustments to reconcile decrease in net assets to net cash, cash equivalents, and restricted cash from operating activities:		
Realized and change in unrealized loss on investments	40,246	879
Bad debt expense	380,792	132,959
Depreciation	529,532	361,465
Impairment loss	-	80,088
Amortization of debt issuance cost	2,383	2,380
Net periodic benefit cost	1,171,983	393,564
Pension-related change other than periodic pension expense	3,839,705	1,421,321
Changes in operating assets and liabilities that provided (used) cash, cash equivalents, and restricted cash:		
Accounts receivable	8,308	(950,941)
Change in advances/due to affiliates	(188,349)	383,374
Other receivables	94,326	(140,980)
Other assets	(108,087)	(128,346)
Accounts payable and accrued expenses	(224,406)	183,040
Accrued wages and related expenses	367,995	(350,396)
Settlements payable and other liabilities	150,721	(196,823)
Deferred revenue	200,216	(113,871)
Pension benefit obligation	(975,000)	(750,000)
Net cash, cash equivalents, and restricted cash provided by (used in) operating activities	664,329	(603,806)
Cash Flows from Investing Activities		
Purchase of property and equipment	(345,960)	(913,400)
Proceeds from sale of property and equipment	126,912	-
Purchases of investments	(40,367)	(38,299)
Net cash, cash equivalents, and restricted cash used in investing activities	(259,415)	(951,699)
Cash Flows from Financing Activities		
Proceeds from Paycheck Protection Program loan	4,428,600	-
Repayments of mortgage notes payable	(230,470)	(212,946)
Net cash, cash equivalents, and restricted cash provided by (used in) financing activities	4,198,130	(212,946)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	4,603,044	(1,768,451)
Cash, Cash Equivalents, and Restricted Cash - Beginning of year	3,231,779	5,000,230
Cash, Cash Equivalents, and Restricted Cash - End of year	**$ 7,834,823**	**$ 3,231,779**
Consolidated Statement of Financial Position Classification of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	$ 7,222,071	$ 2,831,797
Funds held in trust	232,839	208,418
Deposits held in escrow	379,913	191,564
Total cash, cash equivalents, and restricted cash	**$ 7,834,823**	**$ 3,231,779**
Supplemental Cash Flow Information - Cash paid for interest	$ 167,353	$ 172,358

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

McKinley II, Inc.

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.

McKinley III, Inc.

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 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.

McKinley IV, Inc.

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 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 18 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.

Net assets of the Organizations are classified based on the presence or absence of donor-imposed restrictions.

Note 2 - Significant Accounting Policies (Continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organizations.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature; those restrictions will be met by actions of the Organizations or by the passage of time. When a donor restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets (deficiency in net assets) as net assets released from restrictions. Additionally, net assets subject to donor-imposed stipulations stating that they may be maintained in perpetuity are contributions made toward their endowment.

Cash Equivalents

The Organizations consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. They maintain their cash and cash equivalents in bank deposit accounts that 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.

Funds Held in Trust

The Organizations maintain various custodial bank accounts for deposits received on behalf of residents. These funds are owed to the members and are available for their benefit and are payable to them on demand. At June 30, 2020 and 2019, the funds totaled $232,839 and $208,418, respectively, and the corresponding liability accounts totaled $264,356 and $198,788.

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.

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 (deficiency 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. Assets are depreciated 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.

The Organizations report gifts of property, plant, and equipment as support without donor restrictions, and such gifts are excluded from the excess of revenue over expenses unless explicit donor stipulations specify how the donated asset 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 must be maintained. Expirations of donor restrictions are reported when the donated or acquired property, plant, and equipment are placed in service.

Note 2 - Significant Accounting Policies (Continued)

Impairment of Property and Equipment

The Organizations recognize impairment of long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

During 2019, 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 $344,067 as of June 30, 2019. An impairment loss of $80,088 was charged to discontinued operations in 2019. There was no impairment loss recorded as of June 30, 2020.

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 period in which the gift is received are both reported as contributions without donor restrictions. Other restricted gifts are reported as restricted support and net assets with donor restrictions.

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 65,333 and 122,878 volunteer hours in 2020 and 2019, respectively, performing a variety of tasks to assist McKinley at the employment facilities. McKinley also had volunteers performing a variety of tasks at its day care facilities; those 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

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of functional expenses. Costs are charged to program services and support services on an actual basis when available. Allocations for personnel expenses are based on estimates of time and effort of personnel involved in each function. Expenses deemed to be indirect, such as professional services, depreciation, insurance, and supplies, are considered to be management and general unless used specifically by a program. Expenses related to occupancy, such as utilities and depreciation, are allocated based on square footage occupied by each function. Other indirect costs are allocated primarily based on ratio of total expenses or ratio of total salaries. 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.

Impact of Disease Outbreak

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Ada S. McKinley Community Services, Inc. and Subsidiary was deemed an essential service; therefore, there was no significant impact to daily operations. As further disclosed in Note 10, McKinley received Paycheck Protection Program loan funds in the amount of $4,428,600.

No impairments were recorded as of the consolidated statement of financial position date; however, due to the significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. The Organizations continue to monitor the situation.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued 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 and 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, 2021. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organizations are currently reviewing the potential impact on the consolidated financial statements.

Note 2 - Significant Accounting Policies (Continued)

The 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, 2023 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 17.

The FASB issued ASU No. 2020-04, *Rate Reference Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, in response to the expected discontinuation of the use of LIBOR by the end of 2021. The ASU simplifies the accounting for changes in reference rate if certain criteria are met for contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued as a result of reference rate reform. The ASU is effective for all entities as of March 12, 2020 (date of issuance) through December 31, 2022. The Organizations have not yet been contacted by the bank to change the rate.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the consolidated financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for Ada S. McKinley Community Services, Inc. and Subsidiary's year ending June 30, 2022 and will be applied using the retrospective method.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including December 22, 2020, which is the date the consolidated financial statements were available to be issued.

Note 3 - Adoption of New Accounting Pronouncements

As of July 1, 2019, the Organizations adopted Financial Accounting Standards Board Accounting Standards Update No. 2018-08, *Clarifying the Scope and 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 Organizations adopted the new standard on a modified prospective basis, and it impacted the recognition of certain contribution and grant agreements. Government grants now meet the criteria of a nonreciprocal (contribution) transaction, typically with conditions to be met before revenue is recognized. The standard did not require a restatement of prior year amounts.

Note 3 - Adoption of New Accounting Pronouncements (Continued)

As of July 1, 2019, the Organizations adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides new guidance related to the classification and presentation of restricted cash on the statement of cash flows. Under the new guidance, transfers between restricted cash and unrestricted cash are no longer presented on the statement of cash flows. Additionally, the beginning and ending balances in cash, cash equivalents, and restricted cash on the statement of cash flows now include restricted cash balances. The new presentation requirements have been applied retrospectively, and amounts reported in the June 30, 2019 consolidated statement of cash flows have been adjusted as follows:

	As Previously Reported	As Adjusted	Effect of Change
Cash flows provided by operating activities	$ (428,762)	$ (603,806)	$ (175,044)
Cash, cash equivalents, and restricted cash - Beginning of year	4,633,622	5,000,230	366,608
Cash, cash equivalents, and restricted cash - End of year	3,040,215	3,231,779	191,567

Note 4 - Accounts Receivable

Accounts receivable include the following as of June 30:

	2020	2019
Illinois Department of Healthcare and Family Services	$ 340,140	$ 594,473
Illinois Department of Human Services	103,410	232,861
Illinois Department of Children and Family Services	598,694	173,117
Various rehabilitation workshops, contract revenue	897,371	2,083,614
Other receivables	3,893,729	3,232,705
Total accounts receivable - Net	$ 5,833,344	$ 6,316,770

The allowance for doubtful accounts on the accounts receivable balances was $364,030 and $445,018 as of June 30, 2020 and 2019, respectively.

Note 5 - Investments

McKinley's investments are recorded at fair value as of June 30, 2020 and 2019.

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.

Investments consisted of the following at June 30:

	2020	2019
Mutual funds	$ 716,757	$ 752,441
Exchange-traded funds	146,983	111,178
Total	$ 863,740	$ 863,619

Not included in the table above is $8,543 and $8,646 of investments that is included in cash and cash equivalents in the consolidated statement of financial position as of June 30, 2020 and 2019, respectively.

Note 6 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the 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 inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets 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 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. 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.

In instances where 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 asset.

The Organizations measure their investments at fair value on a recurring basis. The fair value of their investments, as described in Note 5, 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 $19,211 and $126,912 at June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, the Organizations recognized noncash impairment charges of $0 and $80,088, respectively, to adjust these assets to their estimated fair values.

Note 7 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2020	2019	Depreciable Life - Years
Land	$ 1,934,808	$ 1,950,808	-
Buildings and improvements	12,710,962	12,533,602	10-40
Furniture and equipment	2,015,179	1,933,205	3-10
Vehicles	140,774	203,457	5
Leasehold improvements	1,593,669	1,593,669	5
Construction in progress	3,400	59,747	-
Total cost	18,398,792	18,274,488	
Accumulated depreciation	11,736,202	11,409,115	
Net property and equipment	$ 6,662,590	$ 6,865,373	

Depreciation expense was $529,532 for 2020 and $361,465 for 2019.

Note 8 - Deposits Held in Escrow

Approximately $379,900 and $191,600 held in various escrow accounts as of June 30, 2020 and 2019, respectively, is restricted to specific expenditures and requires prior approval by the U.S. Department of Housing and Urban Development.

Note 9 - Line of Credit

McKinley has an available line of credit of $4,000,000 at June 30, 2020 and 2019, 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, 2021. Borrowings under the line of credit in 2020 and 2019 are payable on demand at 2.50 percent over the 30-day London Interbank Offered Rate (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, 2020 and 2019 was 2.68 and 4.93 percent, respectively. McKinley must comply with certain financial covenants. As of June 30, 2020, the covenant states that the Organizations must have a minimum liquidity of $2,500,000 measured on a quarterly basis. As of June 30, 2019, the covenants required the Organizations to maintain a certain minimum debt coverage ratio and expendable cash and investments to total funded debt ratio. There were no outstanding borrowings on the line of credit at June 30, 2020 or 2019.

Note 10 - Long-term Debt

Long-term debt at June 30 is as follows:

	2020	2019
McKinley - Section 202 (Direct Loan Program) award from the Department of Housing and Urban Development, 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	$ 561,834	$ 664,076
Samaritas - Mortgage note payable to bank in monthly installments of $18,628, including interest at 3.75 percent as of June 30, 2019, based on a five-year amortization schedule, with a balloon payment due on May 28, 2020. During 2020, the note was refinanced, resulting in monthly installments of $18,438, including interest at 3.75 percent as of June 30, 2020 based on a five-year amortization schedule, with a balloon payment due on May 28, 2025. This note is secured by the mortgaged properties and is guaranteed by Ada S. McKinley Community Services, Inc. The covenant as of June 30, 2019 required the Organizations to maintain a minimum debt coverage ratio of 1.2:1 and expendable cash and investments to total funded debt ratio of no less than 0.3 on a quarterly basis. As of June 30, 2020, the covenant states that the Organizations must have a minimum liquidity of $2,500,000 measured on a quarterly basis. Both covenants are calculated based on consolidated numbers of Ada S. McKinley Community Services, Inc. and Subsidiary	2,537,544	2,665,572

Note 10 - Long-term Debt (Continued)

	2020	2019
McKinley - McKinley was approved for a loan under the Paycheck Protection Program (PPP) created as a part of the relief efforts related to COVID-19 and administered by the Small Business Administration. McKinley received funds totaling $4,428,600 on April 16, 2020. The PPP loan accrues interest at 1.00 percent, but payments are not required to be made until August 1, 2021. McKinley may be eligible for loan forgiveness, up to 100 percent of the loan, upon meeting certain requirements. The portion not forgiven will be required to be paid back by McKinley in full on or before April 16, 2022. The loan is uncollateralized and is fully guaranteed by the federal government	$ 4,428,600	$ -
Unamortized debt issuance costs	-	(2,183)
Total	7,527,978	3,327,465
Less current portion	2,229,350	2,767,814
Long-term portion	$ 5,298,628	$ 559,651

The balance of the above debt matures as follows:

Years Ending	Amount
2021	$ 2,229,350
2022	2,704,872
2023	276,914
2024	294,791
2025	2,022,051
Total	$ 7,527,978

Note 11 - 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.

	2020	2019
Illinois Department of Children and Family Services	$ 637,320	$ 624,438
Illinois Department of Public Health	13,086	13,086
Illinois Healthcare and Family Services	6,290	3,865
Custodian fund - Clients	264,356	198,788
Other	104,018	34,172
Total	$ 1,025,070	$ 874,349

Note 12 - 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 and 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 of 1974 (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	
	2020	2019
Projected benefit obligation	$ 36,196,469	$ 35,355,304
Fair value of plan	26,318,411	29,513,934
Funded status	$ (9,878,058)	$ (5,841,370)

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

	Pension Benefits	
	2020	2019
Current liabilities	$ (1,170,570)	$ (1,127,938)
Noncurrent liabilities	(8,707,488)	(4,713,432)
Funded status at year end	$ (9,878,058)	$ (5,841,370)

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

	Pension Benefits	
	2020	2019
Net loss	$ 12,135,336	$ 8,416,528
Prior service cost	(44,734)	(165,631)
Total	$ 12,090,602	$ 8,250,897

Note 12 - Pension Plan (Continued)

The accumulated benefit obligation (which excludes actuarially calculated benefit obligation adjustments due to future compensation) for all defined benefit pension plans was $35,919,024 and $35,149,397 at June 30, 2020 and 2019, respectively.

	Pension Benefits	
	2020	2019
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	$ 443,914	$ 393,564
Employer contributions	975,000	750,000
Benefits paid	(3,303,963)	(2,232,802)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Net loss	$ 5,117,068	$ 1,789,203
Amortization of loss	(670,191)	(488,779)
Settlement loss	(728,069)	-
Amortization of prior service cost	120,897	120,897
Total recognized in pension-related changes other than net periodic costs	$ 3,839,705	$ 1,421,321

Assumptions

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

	Pension Benefits	
	2020	2019
Discount rate - Benefit obligation	2.56 %	3.42 %
Discount rate - Net periodic benefit cost	3.42 %	4.10 %
Expected long-term return on plan assets	5.33 %	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 plan invests. 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 3.42 percent. The mortality tables were updated to the Pri-2012 Mortality Table projected to 2020 for employees and healthy annuitants with Mortality Improvement Scale MP-2019.

Pension Plan Assets

McKinley’s investment policies employ an approach where 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, 2020 and 2019.

Note 12 - Pension Plan (Continued)

The fair values of the Organizations' pension plan assets at June 30, 2020 and 2019 by major asset classes are as follows:

	Fair Value Measurements at June 30, 2020			
	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	$ -	$ 2,968,779	$ -	$ 2,968,779
U.S. government obligations	-	1,497,953	-	1,497,953
Mortgage-backed securities	-	578,982	-	578,982
Collateralized mortgage obligations	-	33,990	-	33,990
Corporate bonds	-	1,838,394	-	1,838,394
Foreign bonds, notes, and debentures	-	185,505	-	185,505
Equity:				
Common stock:				
International	781,388	-	-	781,388
United States	4,434,794	-	-	4,434,794
Mutual funds:				
Equity	9,119,228	-	-	9,119,228
Fixed income	4,192,695	-	-	4,192,695
Preferred stock	686,703	-	-	686,703
Total	$ 19,214,808	$ 7,103,603	$ -	$ 26,318,411

	Fair Value Measurements at June 30, 2019			
	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	$ -	$ 459,592	$ -	$ 459,592
U.S. government obligations	-	1,574,819	-	1,574,819
Mortgage-backed securities	-	580,736	-	580,736
Collateralized mortgage obligations	-	170,301	-	170,301
Corporate bonds	-	2,441,892	-	2,441,892
Foreign bonds, notes, and debentures	-	106,002	-	106,002
Equity:				
Common stock:				
International	1,796,366	-	-	1,796,366
United States	4,876,275	-	-	4,876,275
Mutual funds:				
Equity	12,538,799	-	-	12,538,799
Fixed income	4,394,158	-	-	4,394,158
Preferred stock	574,994	-	-	574,994
Total	$ 24,180,592	$ 5,333,342	$ -	$ 29,513,934

Note 12 - Pension Plan (Continued)

The tables above present information about the pension plan assets measured at fair value at June 30, 2020 and 2019 and the valuation techniques used by the Organizations to determine those fair values.

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; 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 where 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

The Organizations expect to contribute $900,000 to the pension plan in 2021.

Estimated Future Benefit Payments

Projected benefit payments to retired employees from the plan as of June 30, 2020 are estimated as follows:

Years Ending	Pension Benefits
2021	$ 4,647,081
2022	2,126,663
2023	1,827,488
2024	2,124,680
2025	1,869,767
2026-2030	8,801,682

Note 13 - Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following purposes:

	2020	2019
Donor-restricted endowment (Note 14)	$ 872,407	$ 872,390

Note 14 - 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 or absence 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 Organizations are subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Organizations had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing their donor-restricted endowment funds, the Organizations consider a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organizations had interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, 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, 2020
Endowment net assets - Beginning of year	$ 872,390
Investment return:	
Investment income	40,263
Net depreciation (realized and unrealized)	(40,246)
Total investment return	17
Endowment net assets - End of year	$ 872,407

Note 14 - Donor-restricted Endowment (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019
Endowment net assets - Beginning of year	$ 831,869
Investment return:	
Investment income	41,400
Net depreciation (realized and unrealized)	(879)
Total investment return	40,521
Endowment net assets - End of year	$ 872,390

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 SPMIFA requires the Organizations to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2020.

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 15 - Fees and Grants from Governmental Agencies

	2020	2019
U.S. Department of Education	$ 753,067	$ 780,177
U.S. Department of Housing and Urban Development	539,446	537,969
Social Security Administration - Rental supplements	606,854	739,221
Illinois Department of Children and Family Services	4,972,445	4,401,296
Illinois Department of Healthcare and Family Services (Public Aid)	4,473,886	4,603,590
Illinois Department of Human Services:		
Mental Health and Developmental Disabilities	8,296,357	9,169,413
Rehabilitation Services	16,750	68,413
State of Illinois - Board of Education - Food reimbursement programs	142,957	224,728
Chicago Public Schools	931,542	1,026,939
City of Chicago, Illinois	8,210,294	5,918,724
Total fees and grants from governmental agencies	$ 28,943,598	$ 27,470,470

Note 16 - Rehabilitation Workshops, Contract Revenue, and Other Revenue

	2020	2019
Program service fees and incidental revenue	$ 28,416	$ 36,199
Rehabilitation workshops and contract revenue	11,648,974	11,542,773
Management fees and other services - Affiliates	116,875	81,154
Investment income	116,542	3,960
Miscellaneous	264,638	294,410
Total rehabilitation workshops, contract revenue, and other revenue	$ 12,175,445	$ 11,958,496

Note 17 - Operating Leases

Program facilities and administrative offices are leased at a number of locations under operating lease agreements expiring through 2024.

Rent expense for all properties amounted to $0 and $42,982 in 2020 and 2019, 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 2020 and 2019 were $235,442 and $214,619, 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
2021	$ 204,461	$ 312,645	$ 517,106
2022	172,617	-	172,617
2023	53,741	-	53,741
2024	19,954	-	19,954
Total	$ 450,773	$ 312,645	$ 763,418

Note 18 - Related Party Transactions

McKinley provides various services to the affiliates that are described in Note 1. As shown in Note 16, revenue related to these services is reported in rehabilitation workshops, contract revenue, and other revenue in the consolidated statement of activities and changes in net assets (deficiency in net assets). 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 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, 2020 and 2019. McKinley had the following balances due to/from its affiliates:

	2020	2019
McKinley II, Inc.	$ 113,028	$ 30,253
McKinley III, Inc.	63,605	20,320
McKinley IV, Inc.	109,671	47,382
Total advances to affiliates	$ 286,304	$ 97,955

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.

	2020	2019
Management fee	$ 10,512	$ 10,512
Accounting/Bookkeeping	2,593	2,592
Janitorial service	13,932	11,955
Total	$ 27,037	$ 25,059

McKinley III, Inc.

	2020	2019
Management fee	$ 5,256	$ 5,256
Accounting/Bookkeeping	1,296	1,296
Janitorial service	-	4,280
Service coordinator	4,084	-
Total	$ 10,636	$ 10,832

McKinley IV, Inc.

	2020	2019
Management fee	$ 14,016	$ 14,016
Accounting/Bookkeeping	3,456	3,456
Janitorial service	12,025	11,759
Total	$ 29,497	$ 29,231

Note 19 - Assets Held for Resale and Discontinued Operations

As of July 1, 2015, there were three buildings classified as held for sale. One building was sold in 2016, and another building was sold in 2017. The remaining building located at 2647 88th Street was sold in July 2019. The fair value of the building has been classified as assets held for resale as of June 30, 2020.

Note 19 - Assets Held for Resale and Discontinued Operations (Continued)

In October 2019, an additional property was classified as held for sale. The net carrying value of the building (cost less accumulated depreciation) has been classified as assets held for resale as of June 30, 2020. While the buildings are classified as held for sale, any related revenue or expenses are classified as discontinued operations within the consolidated statement of activities and changes in net assets (deficiency in net assets). The discontinued operations are made up of the following expenses as of June 30, 2020 and 2019:

	2020	2019
Expenses:		
Maintenance and utilities	$ (6,411)	$ (8,361)
Insurance	(964)	(2,610)
Impairment loss	-	(80,088)
Total	$ (7,375)	$ (91,059)

Note 20 - Liquidity and Availability of Resources

The Organizations have $13,055,415 and $9,148,567 of financial assets available within one year of June 30, 2020 and 2019, respectively, to meet cash needs for general expenditures consisting of cash of $7,222,071 and receivables of $5,833,344 in 2020 and cash of $2,831,797 and receivables of $6,316,770 in 2019. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date. The Organizations have a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet normal operating expenses. The Organizations have a policy to structure their financial assets to be available as their general expenditures, liabilities, and other obligations come due. The Organizations also have the ability to draw on the line of credit disclosed in Note 9 in the event of an unanticipated liquidity need.

Additional Information

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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, 2020 and 2019 and have issued our report thereon dated December 22, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the 2020 and 2019 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 parent company 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 2020 and 2019 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 and 2019 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 2020 and 2019 consolidated financial statements as a whole.

Plante & Moran, PLLC

December 22, 2020

Ada S. McKinley Community Services, Inc.

Statement of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 5,490,689	$ 1,252,626
Funds held in trust	232,839	208,418
Receivables - Net	5,833,344	6,316,770
Prepaid expenses	211,470	207,848
Total current assets	11,768,342	7,985,662
Investments	863,740	863,619
Other Assets		
Deposits held in escrow	379,913	191,564
Other assets	106,547	2,082
Property and Equipment - Net	3,398,381	3,505,179
Advances to Affiliates	286,304	157,534
Total assets	**$ 16,803,227**	**$ 12,705,640**
Liabilities and Net Assets (Deficiency in Net Assets)		
Current Liabilities		
Accounts payable	$ 1,637,436	$ 1,861,789
Accrued liabilities and other:		
Accrued wages and related taxes	1,990,946	1,622,951
Accrued interest	13,284	13,284
Settlements payable and other liabilities	1,025,070	874,349
Deferred revenue	250,565	50,349
Current portion of notes payable:		
Notes payable	2,095,996	102,242
Mortgage note due to affiliate	367,584	385,867
Current portion of pension benefit obligation	1,170,570	1,127,938
Total current liabilities	8,551,451	6,038,769
Notes Payable - Net of current portion	2,894,438	561,834
Pension Benefit Obligation - Net of current portion	8,707,488	4,713,432
Due to Affiliates	75,107	43,802
Total liabilities	20,228,484	11,357,837
Net Assets (Deficiency in Net Assets)		
Without donor restrictions	(4,297,664)	475,413
With donor restrictions	872,407	872,390
Total net assets (deficiency in net assets)	(3,425,257)	1,347,803
Total liabilities and net assets (deficiency in net assets)	**$ 16,803,227**	**$ 12,705,640**

Statement of Activities and Changes in Net Assets (Deficiency in Net Assets)

Years Ended June 30, 2020 and 2019

	2020	2019
Changes in Net Assets without Donor Restrictions		
Revenue and other support:		
Fees and grants from governmental agencies	$ 28,943,598	$ 27,470,470
Rehabilitation workshops, contract revenue, and other revenue	12,188,399	11,988,698
Contributions (including $0 and $7,062 in kind for 2020 and 2019, respectively)	301,538	291,507
Total revenue and other support	41,433,535	39,750,675
Expenses:		
Program services:		
Child Day Care Services - Head Start	8,804,498	6,816,221
Counseling	3,283,675	3,456,287
Employment	14,518,068	15,107,865
Foster Family Care	4,150,124	3,761,438
Residential services - ICFDD	3,914,818	3,560,841
Residential services - CILA	2,300,944	2,117,264
Educational services	867,014	891,094
Total program services	37,839,141	35,711,010
Support services:		
Management and general	3,918,756	3,608,986
Fundraising	412,027	315,856
Total support services	4,330,783	3,924,842
Total expenses	42,169,924	39,635,852
(Decrease) Increase in Net Assets without Donor Restrictions - Before other items	(736,389)	114,823
Other Items		
Adjustment to GAAP pension expense from funded pension amount	(196,983)	356,436
Pension-related change other than net periodic costs	(3,839,705)	(1,421,321)
Total other items	(4,036,688)	(1,064,885)
Decrease in Net Assets without Donor Restrictions	(4,773,077)	(950,062)
Changes in Net Assets with Donor Restrictions		
Realized and change in unrealized loss on investments - Net	(40,246)	(879)
Investment income	40,263	41,400
Increase in Net Assets with Donor Restrictions	17	40,521
Decrease in Net Assets	(4,773,060)	(909,541)
Net Assets - Beginning of year	1,347,803	2,257,344
Net Assets (Deficiency in Net Assets) - End of year	**$ (3,425,257)**	**$ 1,347,803**

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services								Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Educational Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ 2,935,222	$ 1,937,751	$ 2,746,732	$ 2,231,950	$ 1,983,661	$ 1,529,935	$ 465,586	$ 13,830,837	$ 1,901,589	$ 107,491	$ 2,009,080	$ 15,839,917
Employee benefits	403,919	283,598	556,906	338,347	337,399	223,246	69,859	2,213,274	329,341	14,729	344,070	2,557,344
Payroll taxes	247,515	181,819	257,344	220,780	218,395	160,024	38,983	1,324,860	179,370	11,361	190,731	1,515,591
Total salaries and related expenses	3,586,656	2,403,168	3,560,982	2,791,077	2,539,455	1,913,205	574,428	17,368,971	2,410,300	133,581	2,543,881	19,912,852
Professional fees - Contract services	3,440,507	584,728	828,295	203,246	203,340	28,642	33,100	5,321,858	572,224	197,718	769,942	6,091,800
Supplies	994,228	17,837	1,140,084	65,852	319,598	180,917	81,079	2,799,595	188,239	262	188,501	2,988,096
Telephone	39,671	47,894	85,281	31,291	19,835	16,775	21,490	262,237	48,997	54	49,051	311,288
Postage and shipping	416	1,643	628,328	3,206	674	253	705	635,225	12,461	35	12,496	647,721
Occupancy	589,145	116,175	370,732	208,957	405,490	45,660	52,299	1,788,458	452,920	932	453,852	2,242,310
Equipment rental and maintenance	91,204	20,259	172,591	64,033	30,358	62,039	16,960	457,444	47,576	-	47,576	505,020
Outside printing and artwork	845	6,551	28,792	187	133	-	7,328	43,836	26,891	5,974	32,865	76,701
Local transportation	13,214	9,241	647,839	96,351	21,901	21,781	8,031	818,358	18,527	1,776	20,303	838,661
Educational conferences and agency meetings	9,908	9,744	24,948	10,018	3,214	2,425	5,149	65,406	25,105	120	25,225	90,631
Subscriptions and reference publications	-	-	-	-	24	-	-	24	-	-	-	24
Special assistance to individuals	14,564	4,989	6,649,873	599,911	27,273	6,675	62,103	7,365,388	-	67,824	67,824	7,433,212
Membership dues	4,250	17,167	9,184	219	-	-	180	31,000	9,429	399	9,828	40,828
Miscellaneous	319	16,161	4,505	1,517	140,626	7,353	928	171,409	82,691	3,352	86,043	257,452
Bad debt expense	424	18,107	192,256	23,078	139,327	7,600	-	380,792	-	-	-	380,792
Depreciation	19,147	10,011	174,378	51,181	63,570	7,619	3,234	329,140	23,396	-	23,396	352,536
Total functional expenses	**$ 8,804,498**	**$ 3,283,675**	**$ 14,518,068**	**$ 4,150,124**	**$ 3,914,818**	**$ 2,300,944**	**$ 867,014**	**$ 37,839,141**	**$ 3,918,756**	**$ 412,027**	**$ 4,330,783**	**$ 42,169,924**

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services								Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Educational Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ 2,328,240	$ 1,989,609	$ 3,029,714	$ 1,837,549	$ 1,691,509	$ 1,331,760	$ 510,303	$ 12,718,684	$ 1,968,487	$ 26,654	$ 1,995,141	$ 14,713,825
Employee benefits	374,133	337,314	593,230	330,742	298,652	233,385	91,728	2,259,184	335,797	3,219	339,016	2,598,200
Payroll taxes	176,696	197,168	263,602	190,328	184,310	145,217	43,979	1,201,300	127,902	2,419	130,321	1,331,621
Total salaries and related expenses	2,879,069	2,524,091	3,886,546	2,358,619	2,174,471	1,710,362	646,010	16,179,168	2,432,186	32,292	2,464,478	18,643,646
Professional fees - Contract services	2,790,848	534,806	831,419	85,179	372,800	60,557	17,856	4,693,465	272,147	204,072	476,219	5,169,684
Supplies	518,860	17,119	1,091,070	69,701	279,461	167,632	29,939	2,173,782	114,315	15,275	129,590	2,303,372
Telephone	38,608	58,206	91,184	32,324	29,047	21,727	18,778	289,874	40,682	553	41,235	331,109
Postage and shipping	2,471	3,419	1,027,411	2,734	944	72	2,224	1,039,275	9,292	46	9,338	1,048,613
Occupancy	459,725	197,382	474,859	246,093	306,026	50,282	58,949	1,793,316	438,580	246	438,826	2,232,142
Equipment rental and maintenance	37,515	32,514	194,567	138,850	89,766	61,668	14,360	569,240	49,012	1,737	50,749	619,989
Outside printing and artwork	30,192	12,484	45,512	870	972	-	6,364	96,394	38,656	1,366	40,022	136,416
Local transportation	16,318	29,033	865,382	133,631	40,285	29,189	18,694	1,132,532	23,158	451	23,609	1,156,141
Educational conferences and agency meetings	5,360	7,234	50,861	16,089	5,074	2,996	21,448	109,062	53,289	8,737	62,026	171,088
Subscriptions and reference publications	173	-	-	173	-	-	173	519	84	-	84	603
Special assistance to individuals	16,379	1,763	6,304,047	647,674	20,262	6,948	42,201	7,039,274	-	47,833	47,833	7,087,107
Membership dues	100	11,300	12,633	613	5,374	331	560	30,911	33,549	-	33,549	64,460
Miscellaneous	97	14,058	28,985	4,701	188,161	4,500	12,234	252,736	92,866	3,248	96,114	348,850
Bad debt expense	13,977	9,421	76,098	-	32,498	-	965	132,959	-	-	-	132,959
Depreciation	6,529	3,457	127,291	24,187	15,700	1,000	339	178,503	11,170	-	11,170	189,673
Total functional expenses	**$ 6,816,221**	**$ 3,456,287**	**$ 15,107,865**	**$ 3,761,438**	**$ 3,560,841**	**$ 2,117,264**	**$ 891,094**	**$ 35,711,010**	**$ 3,608,986**	**$ 315,856**	**$ 3,924,842**	**$ 39,635,852**

Statement of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Decrease in net assets	$ (4,773,060)	$ (909,541)
Adjustments to reconcile decrease in net assets to net cash, cash equivalents, and restricted cash from operating activities:		
Realized and change in unrealized loss on investments	40,246	879
Bad debt expense	380,792	132,959
Depreciation	352,536	189,673
Net periodic benefit cost	1,171,983	393,564
Pension-related change other than periodic pension expense	3,839,705	1,421,321
Changes in operating assets and liabilities which provided (used) cash, cash equivalents, and restricted cash:		
Accounts receivable	8,308	(950,941)
Change in advances/due to affiliates	(115,748)	381,478
Other receivables	94,326	(140,980)
Other assets	(108,087)	(128,346)
Accounts payable and accrued expenses	(224,353)	183,061
Accrued wages and related expenses	367,995	(350,396)
Settlements payable and other liabilities	150,721	(196,823)
Deferred revenue	200,216	(113,871)
Pension benefit obligation	(975,000)	(750,000)
Net cash, cash equivalents, and restricted cash provided by (used in) operating activities	410,580	(837,963)
Cash Flows from Investing Activities		
Purchase of property and equipment	(245,738)	(689,369)
Purchases of investments	(40,367)	(38,299)
Net cash, cash equivalents, and restricted cash used in investing activities	(286,105)	(727,668)
Cash Flows from Financing Activities		
Proceeds from Paycheck Protection Program loan	4,428,600	-
Repayment of mortgage notes payable	(102,242)	(93,242)
Net cash, cash equivalents, and restricted cash provided by (used in) financing activities	4,326,358	(93,242)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	4,450,833	(1,658,873)
Cash, Cash Equivalents, and Restricted Cash - Beginning of year	1,652,608	3,311,481
Cash, Cash Equivalents, and Restricted Cash - End of year	**$ 6,103,441**	**$ 1,652,608**
Statement of Financial Position Classification of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	5,490,689	1,252,626
Funds held in trust	232,839	208,418
Deposits held in escrow	379,913	191,564
Total cash, cash equivalents, and restricted cash	**$ 6,103,441**	**$ 1,652,608**
Supplemental Cash Flow Information - Cash paid for interest	$ 155,181	$ 81,195
Significant Noncash Transactions - Purchase of property and equipment included in accounts payable	$ -	$ 67,930