Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Financial Report with Additional Information
June 30, 2016

Ada S. McKinley Community Services, Inc. and Subsidiary

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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, which comprise the consolidated statement of financial position as of June 30, 2016 and 2015 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.

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, 2016 and 2015 and the changes in their net assets and their 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 October 27, 2016 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

October 27, 2016

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Financial Position

	June 30, 2016	June 30, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 5,045,300	$ 2,780,561
Receivables:		
Accounts receivable - Net (Notes 1 and 2)	4,106,855	5,115,934
Other receivables	9,192	3,374
Prepaid expenses	154,014	156,706
Total current assets	9,315,361	8,056,575
Investments (Note 3)	690,767	692,360
Assets Held for Resale (Note 17)	473,394	805,389
Property and Equipment - Net (Note 5)	6,730,893	7,083,113
Advances to Affiliates (Note 16)	121,292	36,598
Other Assets		
Finance costs	9,326	11,708
Deposits	11,332	11,332
Deposits held in escrow (Note 6)	158,064	125,608
Total assets	**$ 17,510,429**	**$ 16,822,683**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,374,992	$ 1,327,565
Current portion of mortgage notes payable (Note 8)	188,501	177,233
Deferred revenue	20,649	110,079
Accrued liabilities and other:		
Accrued wages and related taxes	1,878,418	1,475,899
Accrued interest	27,105	13,840
Settlements payable and other liabilities (Note 9)	783,159	539,144
Total current liabilities	4,272,824	3,643,760
Mortgage Notes Payable - Net of current portion (Note 8)	3,742,874	3,931,375
Pension Benefit Obligation (Note 10)	6,964,303	4,013,409
Due to Affiliates (Note 16)	-	33,110
Total liabilities	14,980,001	11,621,654
Net Assets		
Unrestricted	1,770,551	4,420,630
Temporarily restricted (Note 11)	66,799	87,341
Permanently restricted (Note 12)	693,078	693,058
Total net assets	2,530,428	5,201,029
Total liabilities and net assets	**$ 17,510,429**	**$ 16,822,683**

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended June 30, 2016	Year Ended June 30, 2015
Changes in Unrestricted Net Assets		
Revenue and support:		
Fees and grants from governmental agencies (Note 13)	$ 27,022,887	$ 26,334,341
Rehabilitation workshops, contract revenue, and other revenue (Note 14)	11,463,464	11,482,163
Contributions (including $45,330 and $37,773 in-kind for 2016 and 2015, respectively)	205,894	151,582
Special events (net of expenses of $0 and $11,042 for 2016 and 2015, respectively)	-	38,123
United Way of Chicago allocation	552	2,117
Total revenue and support	38,692,797	38,008,326
Net Assets Released from Restrictions	20,542	62,427
Total revenue and support and net assets released from restrictions	38,713,339	38,070,753
Expenses		
Program services:		
Child Day Care Services - Head Start	5,508,707	4,219,937
Counseling	4,403,977	5,420,468
Employment	14,218,230	14,725,369
Foster Family Care	3,723,883	3,463,119
Residential Services - ICFDD	3,477,392	3,284,231
Residential Services - CILA	1,838,393	1,661,652
Youth - After School	1,847,112	1,775,766
Total program services	35,017,694	34,550,542
Support services:		
Management and general	3,214,224	3,240,502
Fundraising	36,612	54,092
Total expenses	38,268,530	37,845,136
Increase in Unrestricted Net Assets - Before pension adjustments and discontinued operations	444,809	225,617
Adjustment to GAAP Pension Expense from Funded Pension Amount	431,825	378,550
Pension-related Change Other than Periodic Pension Expense	(3,382,719)	(661,870)
Discontinued Operations (Note 17)	(143,994)	(134,624)
Decrease in Unrestricted Net Assets	(2,650,079)	(192,327)
Changes in Temporarily Restricted Net Assets		
Contributions - Temporarily restricted	-	9,250
Net assets released from restrictions	(20,542)	(62,427)
Decrease in Temporarily Restricted Net Assets	(20,542)	(53,177)
Permanently Restricted Net Assets		
Contributions - Permanently restricted	2,414	288
Realized and change in unrealized loss on investments	(33,060)	(29,698)
Investment income	30,666	35,384
Increase in Permanently Restricted Net Assets	20	5,974
Decrease in Net Assets	(2,670,601)	(239,530)
Net Assets - Beginning of year	5,201,029	5,440,559
Net Assets - End of year	**$ 2,530,428**	**$ 5,201,029**

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2016

	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	Total	Management and General	Fundraising	Total	2016 Total
Salaries	$ 2,050,083	$ 2,446,288	$ 2,790,862	$ 1,665,209	$ 1,797,128	$ 1,120,763	$ 1,011,230	$ 12,881,563	$ 1,812,679	$ -	$ 1,812,679	$ 14,694,242
Employee benefits	368,834	431,083	642,609	309,268	362,151	172,634	212,254	2,498,833	270,873	-	270,873	2,769,706
Payroll taxes	191,161	262,445	281,516	182,092	203,053	136,080	89,232	1,345,579	123,788	-	123,788	1,469,367
Total salaries and related expenses	2,610,078	3,139,816	3,714,987	2,156,569	2,362,332	1,429,477	1,312,716	16,725,975	2,207,340	-	2,207,340	18,933,315
Professional fees - Contract services	2,045,031	635,724	1,405,484	41,217	134,552	14,651	54,447	4,331,106	230,435	20,043	250,478	4,581,584
Supplies	428,331	39,221	888,273	46,888	290,680	177,617	128,545	1,999,555	35,784	9,446	45,230	2,044,785
Telephone	38,745	123,814	93,999	40,224	28,650	34,384	12,778	372,594	133,974	-	133,974	506,568
Postage and shipping	1,246	5,196	674,841	6,017	1,044	268	1,533	690,145	5,866	-	5,866	696,011
Occupancy	177,123	138,480	320,085	229,602	295,424	26,890	129,938	1,317,542	280,776	3,187	283,963	1,601,505
Outside printing and artwork	3,566	11,083	36,205	2,343	471	359	685	54,712	6,222	-	6,222	60,934
Local transportation	17,013	50,433	778,259	89,574	51,223	23,611	21,073	1,031,186	15,597	-	15,597	1,046,783
Educational conferences and agency meetings	8,446	16,429	22,186	6,693	9,712	4,558	4,896	72,920	39,673	-	39,673	112,593
Subscriptions and reference publications	-	882	972	357	52	-	-	2,263	3,437	-	3,437	5,700
Special assistance to individuals	100,652	59,043	5,836,951	990,917	27,613	16,455	40,089	7,071,720	-	-	-	7,071,720
Equipment rental and maintenance	38,946	56,700	140,156	71,346	43,060	16,932	34,513	401,653	42,443	-	42,443	444,096
Membership dues	-	10,185	23,122	45	11,354	1,182	2,804	2,804	13,880	-	13,880	16,684
Provision for doubtful accounts	-	89,570	151,323	10,418	8,812	63,101	25,597	348,821	-	-	-	348,821
Miscellaneous	148	7,814	6,691	469	183,411	10	62,326	260,869	46,892	624	47,516	308,385
Depreciation	39,382	19,587	124,696	31,204	29,002	28,898	15,172	366,139	151,905	3,312	155,217	521,356
Total functional expenses	**$ 5,508,707**	**$ 4,403,977**	**$ 14,218,230**	**$ 3,723,883**	**$ 3,477,392**	**$ 1,838,393**	**$ 1,847,112**	**$ 35,017,694**	**$ 3,214,224**	**$ 36,612**	**$ 3,250,836**	**$ 38,268,530**

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2015

	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	Total	Management and General	Fundraising	Total	2015 Total
Salaries	$ 1,716,368	$ 2,607,339	$ 2,756,819	$ 1,541,880	$ 1,590,037	$ 975,784	$ 963,608	$ 12,151,835	$ 1,890,470	$ -	$ 1,890,470	$ 14,042,305
Employee benefits	323,716	506,578	669,203	291,619	329,130	164,990	185,582	2,470,818	276,316	-	276,316	2,747,134
Payroll taxes	189,642	307,747	313,187	186,422	203,790	129,573	88,440	1,418,801	166,774	-	166,774	1,585,575
Total salaries and related expenses	2,229,726	3,421,664	3,739,209	2,019,921	2,122,957	1,270,347	1,237,630	16,041,454	2,333,560	-	2,333,560	18,375,014
Professional fees - Contract services	1,335,104	1,058,691	1,824,524	65,133	121,741	17,110	136,440	4,558,743	90,276	8,625	98,901	4,657,644
Supplies	288,898	32,821	867,066	51,023	285,538	182,372	141,532	1,849,250	22,680	17,118	39,798	1,889,048
Telephone	42,133	144,363	88,124	44,653	31,020	40,446	18,958	409,697	108,348	6,533	114,881	524,578
Postage and shipping	1,680	6,219	505,602	4,045	2,125	217	2,989	522,877	4,997	259	5,256	528,133
Occupancy	208,146	233,748	315,752	227,374	343,199	26,560	91,253	1,446,032	352,776	13,521	366,297	1,812,329
Outside printing and artwork	374	14,948	29,929	1,699	544	192	6,371	54,057	5,585	48	5,633	59,690
Local transportation	11,353	64,501	786,296	79,376	46,907	21,276	19,209	1,028,918	20,014	-	20,014	1,048,932
Educational conferences and agency meetings	850	12,264	12,646	8,824	9,080	4,697	4,075	52,436	46,318	-	46,318	98,754
Subscriptions and reference publications	-	-	681	293	267	259	-	1,500	5,765	-	5,765	7,265
Special assistance to individuals	19,404	47,738	6,204,022	866,594	31,773	20,077	16,783	7,206,391	-	-	-	7,206,391
Equipment rental and maintenance	38,006	56,696	152,338	42,573	39,835	20,842	18,493	368,783	37,475	3,269	40,744	409,527
Membership dues	42	9,960	16,033	3,045	10,510	2,910	466	42,966	13,161	-	13,161	56,127
Miscellaneous	195	4,008	11,675	2,259	190,677	252	65,888	274,954	47,351	852	48,203	323,157
Bad debts expense	-	266,587	36,175	2,441	-	22,904	(1,762)	326,345	(540)	-	(540)	325,805
Depreciation	44,026	46,260	135,297	43,866	48,058	31,191	17,441	366,139	152,736	3,867	156,603	522,742
Total functional expenses	**$ 4,219,937**	**$ 5,420,468**	**$ 14,725,369**	**$ 3,463,119**	**$ 3,284,231**	**$ 1,661,652**	**$ 1,775,766**	**$ 34,550,542**	**$ 3,240,502**	**$ 54,092**	**$ 3,294,594**	**$ 37,845,136**

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended June 30, 2016	Year Ended June 30, 2015
Cash Flows from Operating Activities		
Decrease in net assets	$ (2,670,601)	$ (239,530)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Realized and change in unrealized loss on investments	33,060	29,698
Bad debt expense	335,564	325,805
Depreciation	443,159	565,514
Impairment loss	56,979	-
Loss on sale of assets	47,640	-
Contributions to endowment	(2,414)	(288)
Amortization of debt issuance costs	2,382	-
Net periodic benefit cost	468,175	521,450
Pension-related change other than periodic pension expense	3,382,719	661,870
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	673,515	(1,371,425)
Change in advances/due from affiliates	(120,500)	30,315
Other receivables	(5,818)	57,982
Other assets	(29,764)	(32,566)
Accounts payable and accrued expenses	63,388	62,353
Accrued wages and related expenses	402,519	(152,576)
Settlements payable and other liabilities	244,015	(98,856)
Deferred revenue	(89,430)	110,079
Pension benefit obligation	(900,000)	(900,000)
Net cash provided by (used in) operating activities	2,334,588	(430,175)
Cash Flows from Investing Activities		
Purchase of property and equipment	(90,939)	(85,045)
Proceeds from sale of property and equipment	227,376	-
Purchase of investments	(31,467)	(36,727)
Net cash provided by (used in) investing activities	104,970	(121,772)
Cash Flows from Financing Activities		
Repayments of mortgage notes payable	(177,233)	(628,409)
Contributions to endowment	2,414	288
Proceeds from issuance of mortgage notes	-	3,126,517
Payments made on mortgage notes payable through refinance	-	(2,674,324)
Payments made on project bonds through refinance	-	(450,000)
Net cash used in financing activities	(174,819)	(625,928)
Net Increase (Decrease) in Cash and Cash Equivalents	2,264,739	(1,177,875)
Cash and Cash Equivalents - Beginning of year	2,780,561	3,958,436
Cash and Cash Equivalents - End of year	**$ 5,045,300**	**$ 2,780,561**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 196,220**	**$ 289,958**

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organizations - 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 purposes of Samaritas are "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 (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.

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 (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.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

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 16 for additional transactions between McKinley and the affiliates.

<u>Significant accounting policies:</u>

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.

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 which 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.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

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 $499,947 and $426,106 as of June 30, 2016 and 2015, 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 which improve or extend the life of an existing asset.

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.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Impairment of Property and Equipment - During 2016, the long-term assets held for sale were deemed to be impaired and written down to their fair value. Fair value, which was determined by reference to the present value of the estimated future cash inflows of such assets, exceeded their carrying value by $56,979. An impairment loss of this amount has been charged to discontinued operations.

Finance Costs - Finance costs are recorded when paid and are amortized on a straight-line basis over the life of the debt.

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 fees and grants from governmental agencies designated for use in specific activities is recognized in the period when 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 approximately 4,533 and 4,579 volunteer hours in 2016 and 2015, 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.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

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.).

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 Change - Not-for-Profit Entities Financial Reporting Model - 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 2016-14 requires significant changes to the financial reporting model of organizations who 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 are currently evaluating the impact this standard will have on the consolidated financial statements.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Upcoming Accounting Change - Revenue Recognition - 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 have not yet determined which application method they will use or the potential effects of the new standard on the consolidated financial statements, if any.

Upcoming Accounting Change - Leases - In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-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 footnote 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 as not yet been determined, but it is not expected to be significant.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including October 27, 2016, which is the date the consolidated financial statements were issued.

Subsequent to year end, McKinley entered into a contract to transfer management of Lakeside Academy to another organization. The effects of this transfer are a decrease in revenue of approximately $2 million and a decrease in expenses of approximately $2.1 million.

Note 2 - Accounts Receivable

Accounts receivable include the following as of June 30:

	2016	2015
Illinois Department of Healthcare and Family Services	$ 579,245	$ 724,073
Illinois Department of Human Services	191,234	324,798
Illinois Department of Children and Family Services	124,261	125,409
Various rehabilitation workshops, contract revenue	1,147,735	1,487,703
Other receivables	2,064,380	2,453,951
Total accounts receivable - Net	$ 4,106,855	$ 5,115,934

Note 3 - Investments

McKinley's investments are recorded at fair value as of June 30, 2016.

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:

	2016	2015
Mutual funds	$ 581,593	$ 594,233
Exchange-traded funds	109,174	98,127
Total	$ 690,767	$ 692,360

Not included in the table above is $2,186 and $573 of investments that is included in cash and cash equivalents in the consolidated statement of financial position as of June 30, 2016 and 2015, respectively.

Note 4 - Fair Value

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.

Note 4 - Fair Value Measurements (Continued)

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. 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 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 3 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 non-recurring 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 $473,394 and $805,389 at June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, the Organizations recognized noncash impairment charges of $56,979 and $0, respectively, to adjust these assets to their estimated fair values.

Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015	Depreciable Life - Years
Land	$ 2,013,214	$ 2,013,214	-
Buildings and improvements	11,739,809	11,739,809	10-40
Furniture and equipment	1,571,268	1,480,330	3-10
Vehicles	190,077	190,077	5
Leasehold improvements	1,713,442	1,713,442	5
Total cost	17,227,810	17,136,872	
Accumulated depreciation	10,496,917	10,053,759	
Net property and equipment	$ 6,730,893	$ 7,083,113	

Depreciation expense was $443,159 for 2016 and $560,191 for 2015. For the year ended 2015, $37,449 of depreciation was included in discontinued operations on the consolidated statement of activities and changes in net assets.

Note 6 - Deposits Held in Escrow

Approximately $158,100 and $125,600 held in various escrow accounts as of June 30, 2016 and 2015, respectively, is restricted to specific expenditures and requires prior approval by the U.S. Department of Housing and Urban Development (HUD).

Note 7 - Line of Credit

McKinley has an available line of credit of $4,000,000 at June 30, 2016 and 2015, which is used to bridge funding during periods when receipts from funding sources fall below cash disbursement requirements. The line of credit was refinanced at a different bank during 2015 and currently expires in May 2017. Borrowings under the line of credit in 2016 and 2015 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, 2016 and 2015 was 2.95 percent and 2.69 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, 2016 or 2015.

Note 8 - Mortgage Notes Payable

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

	2016	2015
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	$ 919,901	$ 990,623
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 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	3,011,474	3,117,985
Total	3,931,375	4,108,608
Less current portion	188,501	177,233
Long-term portion	$ 3,742,874	$ 3,931,375

Maturities on debt as of June 30, 2016 are as follows:

2017	$ 188,501
2018	200,279
2019	212,946
2020	2,767,033
2021	111,253
Thereafter	451,363
Total	$ 3,931,375

Note 9 - 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 costs 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.

	2016	2015
Illinois Department of Children and Family Services	$ 332,796	$ 155,221
Illinois Department of Human Services	95,097	95,267
Illinois Department of Public Health	12,726	71,274
Illinois Healthcare and Family Services	151,900	707
Custodian Fund - Clients	170,573	185,694
Other	20,067	30,981
Total	$ 783,159	$ 539,144

Note 10 - 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	
	2016	2015
Projected benefit obligation	$ 35,385,304	$ 33,676,239
Fair value of plan assets at beginning of year	28,421,001	29,662,830
Funded status at end of year	$ (6,964,303)	$ (4,013,409)

Note 10 - Pension Plan (Continued)

Amounts recognized in the consolidated balance sheet consist of the following:

	Pension Benefits	
	2016	2015
Noncurrent liabilities	$ (6,964,303)	$ (4,013,409)

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

	Pension Benefits	
	2016	2015
Net loss	$ 9,274,906	$ 6,013,084
Prior service cost	(528,322)	(649,219)
Total	$ 8,746,584	$ 5,363,865

The accumulated benefit obligation (which excludes actuarially calculated benefit obligation adjustments due to future compensation) for all defined benefit pension plans was $35,271,872 and $33,604,950 at June 30, 2016 and 2015, respectively.

	Pension Benefits	
	2016	2015
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	$ 468,175	$ 521,450
Employer contributions	900,000	900,000
Settlements	(1,740,196)	(2,325,062)
Benefits paid	(995,602)	(782,494)
Pension-/Benefit-related Changes Other than Net Periodic Costs		
Net loss	$ 3,617,395	$ 1,224,072
Amortization of loss	(355,573)	(267,140)
Settlement loss	-	(415,959)
Amortization of prior service cost	120,897	120,897
Total recognized in pension-/benefit-related changes other than net periodic costs	$ 3,382,719	$ 661,870
Total recognized in pension/benefit expense and pension-/benefit-related changes	$ 3,850,894	$ 1,183,320

Note 10 - Pension Plan (Continued)

Assumptions

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

	Pension Benefits	
	2016	2015
Discount rate - Benefit obligation	4.10 %	4.80 %
Discount rate - Net periodic benefit cost	4.80	4.50
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 changed from 4.80 percent to 4.10 percent. The mortality tables were changed to be the RP-2006 Mortality Table projected to 2016 for employees and healthy annuitants with Mortality Improvement Scale MP-2015. The assumption of distributions was also changed from assuming 100 percent will elect a normal form of distribution to assuming 30 percent will elect normal form of distribution and 70 percent will elect the lump-sum option based on conservative historical data.

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, 2016 and 2015.

Note 10 - Pension Plan (Continued)

The fair values of the Organizations' pension plan assets at June 30, 2016 and 2015 by major asset classes are as follows:

Fair Value Measurements at June 30, 2016

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Classes				
Fixed income:				
Money market funds	$ 532,104	$ -	$ 532,104	$ -
U.S. government obligations	1,754,116	1,754,116	-	-
Municipal obligations	40,144	40,144	-	-
Mortgage-backed securities	507,069	-	507,069	-
Collateralized mortgage obligations	566,373	-	566,373	-
Corporate bonds	2,253,102	-	2,253,102	-
Foreign bonds, notes, and debentures	97,399	-	97,399	-
Equity:				
Common stock:				
International	1,684,125	1,684,125	-	-
United States	5,902,957	5,902,957	-	-
Mutual funds:				
Equity	10,471,438	10,471,438	-	-
Fixed income	4,002,768	4,002,768	-	-
Preferred stock	607,294	-	607,294	-
Rights, warrants, and derivatives	2,112	-	2,112	-
Total	$ 28,421,001	$ 23,855,548	$ 4,565,453	$ -

Note 10 - Pension Plan (Continued)

Fair Value Measurements at June 30, 2015

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Classes				
Fixed income:				
Money market funds	$ 658,583	$ -	$ 658,583	$ -
U.S. government obligations	1,900,592	1,900,592	-	-
Municipal obligations	51,140	51,140	-	-
Mortgage-backed securities	445,987	-	445,987	-
Collateralized mortgage obligations	440,895	-	440,895	-
Corporate bonds	2,059,340	-	2,059,340	-
Foreign bonds, notes, and debentures	89,513	-	89,513	-
Equity:				
Common stock:				
International	3,238,589	3,238,589	-	-
United States	5,978,191	5,978,191		-
Mutual funds:				
Equity	10,106,327	10,106,327	-	-
Fixed income	4,145,933	4,145,933	-	-
Preferred stock	545,647	-	545,647	-
Rights, warrants, and derivatives	2,093	-	2,093	-
Total	$ 29,662,830	$ 25,420,772	$ 4,242,058	$ -

The above table presents information about the pension plan assets measured at fair value at June 30, 2016 and 2015 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, corporate bonds, mortgage-backed securities, collateralized mortgage obligations, foreign bonds, notes and debentures, preferred stock, and rights, warrants, and derivatives were determined primarily by Level 2 inputs.

Note 10 - Pension Plan (Continued)

The Organizations estimate fair values for the money market funds, corporate bonds, mortgage-backed securities, collateralized mortgage obligations, foreign bonds, notes and debentures, preferred stock, 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 which 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 2017, 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 2017.

Estimated Future Benefit Payments

Projected benefit payments to retired employees from the plans as of June 30, 2016 are estimated as follows:

Years Ending June 30	Pension Benefits
2016	$ 3,737,000
2017	1,713,000
2018	2,232,000
2019	3,094,000
2020	2,723,000
2021-2025	11,515,000

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are restricted for the following:

	2016	2015
Scholarships	$ -	$ 9,250
Head Start building funded by Head Start Facility Grant	66,799	78,091
Total temporarily restricted net assets	$ 66,799	$ 87,341

Note 12 - 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 the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by 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:

(1) The duration and preservation of the fund
(2) The purposes of the Organizations and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organizations
(7) The investment policies of the Organizations

Note 12 - Donor-restricted Endowment (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	Permanently Restricted
Endowment net assets - Beginning of year	$ 693,058
Investment return:	
Investment income	30,666
Net depreciation (realized and unrealized)	(33,060)
Total investment return	(2,394)
Contributions	2,414
Endowment net assets - End of year	$ 693,078

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	Permanently Restricted
Endowment net assets - Beginning of year	$ 687,084
Investment return:	
Investment income	35,384
Net depreciation (realized and unrealized)	(29,698)
Total investment return	5,686
Contributions	288
Endowment net assets - End of year	$ 693,058

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.

Note 12 - Donor-restricted Endowment (Continued)

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

The Organizations' policy is to not have 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 or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 13 - Fees and Grants from Governmental Agencies

	2016	2015
U.S. Department of:		
Education	$ 732,863	$ 675,548
Housing and Urban Development	542,725	539,733
Social Security Administration - Rental supplements	704,919	688,054
Illinois Department of:		
Children and Family Services	4,320,968	4,075,238
Commerce and Economic Opportunity	1,145	23,000
Healthcare and Family Services (Public Aid)	4,668,834	5,043,649
Human Services:		
Mental Health and Developmental Disabilities	8,296,135	7,874,785
Rehabilitation Services	245,991	245,639
State of Illinois - Board of Education - Food reimbursement programs	238,459	223,427
Chicago Public Schools	2,697,118	2,793,015
City of Chicago	4,573,730	3,205,362
Department of Public Health	-	946,891
Total	$ 27,022,887	$ 26,334,341

Note 14 - Rehabilitation Workshops and Contract Revenue and Other Revenue

	2016	2015
Program service fees and incidental revenue	$ 75,148	$ 61,357
Rehabilitation workshops and contract revenue	11,307,966	11,271,569
Management fees and other services - Affiliates	32,348	34,389
Investment income	1,178	79,471
Miscellaneous	46,824	35,377
Total rehabilitation workshops and contract revenue and other revenue	$ 11,463,464	$ 11,482,163

Note 15 - Operating Lease

Program facilities and administrative offices are leased at a number of locations under operating lease agreements expiring through the year 2018.

Rent expense for all properties amounted to $223,862 and $186,881 in 2016 and 2015, respectively.

McKinley also used office and telephone equipment under various operating leases subject to specific lease terms and rentals. Total lease payments charged to operations in 2016 and 2015 were $154,690 and $160,447, respectively.

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

	Equipment and Office	Program Facilities	Total
2017	$ 44,124	$ 204,925	$ 249,049
2018	27,786	15,209	42,995
2019	17,054	-	17,054
2020	8,730	-	8,730
Total	$ 97,694	$ 220,134	$ 317,828

Note 16 - Related Party Transactions

McKinley provides various services to the affiliates that are described in Note 1. McKinley had the following balances due to/from its affiliates:

	2016	2015
McKinley II	$ 58,344	$ -
McKinley III	44,534	36,598
McKinley IV	18,414	-
Total advances to affiliates	$ 121,292	$ 36,598
McKinley II	$ -	$ 5,845
McKinley IV	-	27,265
Total due to affiliates	$ -	$ 33,110

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

McKinley II

	2016	2015
Management fee	$ 8,292	$ 9,737
Accounting/Bookkeeping	2,592	2,592
Janitorial service	12,253	10,963
Service coordinator	32,049	28,601
Total	$ 55,186	$ 51,893

McKinley III

	2016	2015
Management fee	$ 4,042	$ 4,325
Accounting/Bookkeeping	1,296	1,296
Janitorial service	12,205	13,881
Service coordinator	14,444	12,825
Total	$ 31,987	$ 32,327

Note 16 - Related Party Transactions (Continued)

McKinley IV

	2016	2015
Management fee	$ 12,672	$ 12,983
Accounting/Bookkeeping	3,456	3,456
Janitorial service	11,805	11,388
Total	$ 27,933	$ 27,827

Note 17 - Assets Held for Resale and Discontinued Operations

As of July 1, 2015, two 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, 2016 and 2015. During 2016, one of the buildings held for sale was sold.

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, 2016 and 2015:

	2016	2015
Rental income	$ -	$ -
Expenses:		
Maintenance and utilities	(35,032)	(85,220)
Insurance	(4,343)	(7,056)
Depreciation	-	(37,449)
Loss on sale	(47,640)	-
Impairment loss	(56,979)	-
Miscellaneous	-	(4,899)
Total	$ (143,994)	$ (134,624)

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 (the "Organizations") as of and for the years ended June 30, 2016 and 2015 and have issued our report thereon dated October 27, 2016, which contained an unmodified opinion on those consolidated financial statements.

Our audit was conducted for the purpose of forming an opinion on the 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 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.

The additional information described in the preceding paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the 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, other than the exception noted above, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

October 27, 2016

Ada S. McKinley Community Services, Inc.

Statement of Financial Position

	June 30, 2016	June 30, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 3,907,282	$ 2,083,909
Receivables:		
Accounts receivable - Net	4,106,855	5,115,934
Other receivables	9,192	3,374
Prepaid expenses	154,014	156,706
Total current assets	8,177,343	7,359,923
Investments	690,767	692,360
Property and Equipment - Net	3,057,249	3,232,392
Advances to Affiliates	126,112	14,119
Other Assets		
Deposits	11,332	11,332
Deposits held in escrow	158,064	125,608
Total assets	**$ 12,220,867**	**$ 11,435,734**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,374,992	$ 1,322,095
Current portion of mortgage notes payable	77,549	70,722
Deferred revenue	20,649	110,079
Mortgage note due to affiliate	435,940	454,055
Accrued liabilities and other:		
Accrued wages and related taxes	1,878,418	1,475,899
Accrued interest	26,568	13,284
Settlements payable and other liabilities	783,159	539,144
Total current liabilities	4,597,275	3,985,278
Mortgage Notes Payable - Net of current portion	842,352	919,901
Pension Benefit Obligation	6,964,303	4,013,409
Due to Affiliates	-	33,110
Total liabilities	12,403,930	8,951,698
Net Assets		
Unrestricted	(876,141)	1,781,728
Temporarily restricted	-	9,250
Permanently restricted	693,078	693,058
Total net assets (deficit)	(183,063)	2,484,036
Total liabilities and net assets	**$ 12,220,867**	**$ 11,435,734**

Ada S. McKinley Community Services, Inc.

Statement of Activities and Changes in Net Assets (Deficit)

	Year Ended June 30, 2016	Year Ended June 30, 2015
Changes in Unrestricted Net Assets		
Revenue and support:		
Fees and grants from governmental agencies	$ 27,022,887	$ 26,334,341
Rehabilitation workshops, contract revenue, and other revenue	11,507,279	11,525,367
Contributions (including $45,330 and $37,773 in-kind for 2016 and 2015, respectively)	205,894	151,582
Special events (net of expenses of $0 and $11,042 for 2016 and 2015, respectively)	-	38,123
United Way of Chicago allocation	552	2,117
Total revenue and support	38,736,612	38,051,530
Net Assets Released from Restrictions	9,250	51,135
Total unrestricted revenue, support, and net assets released from restrictions	38,745,862	38,102,665
Expenses		
Program services:		
Child Day Care Services - Head Start	5,493,558	4,203,847
Counseling	4,466,390	5,480,366
Employment	14,268,048	14,767,873
Foster Family Care	3,723,883	3,463,119
Residential Services - ICFDD	3,501,404	3,305,587
Residential Services - CILA	1,830,279	1,653,058
Youth - After School	1,944,857	1,911,345
Total program services	35,228,419	34,785,195
Support services:		
Management and general	3,189,608	3,108,977
Fundraising	34,810	65,954
Total expenses	38,452,837	37,960,126
Increase in Unrestricted Net Assets - Before pension adjustments	293,025	142,539
Adjustment to GAAP Pension Expense from Funded Pension Amount	431,825	378,550
Pension-related Change Other than Periodic Pension Expense	(3,382,719)	(661,870)
Decrease in Unrestricted Net Assets	(2,657,869)	(140,781)
Changes in Temporarily Restricted Net Assets		
Contributions - Temporarily restricted	-	9,250
Net assets released from restrictions	(9,250)	(51,135)
Decrease in Temporarily Restricted Net Assets	(9,250)	(41,885)
Permanently Restricted Net Assets		-
Contributions - Permanently restricted	2,414	288
Realized and change in unrealized loss on investments	(33,060)	(29,698)
Investment income	30,666	35,384
Increase in Permanently Restricted Net Assets	20	5,974
Decrease in Net Assets	(2,667,099)	(176,692)
Net Assets - Beginning of year	2,484,036	2,660,728
Net Assets (Deficit) - End of year	**$ (183,063)**	**$ 2,484,036**

Ada S. McKinley Community Services, Inc.

Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services								Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Youth - After School	Total	Management and General	Fundraising	Total	2015 Total
Salaries	$ 2,050,083	$ 2,446,288	$ 2,790,862	$ 1,665,209	$ 1,797,128	$ 1,120,763	$ 1,011,230	$ 12,881,563	$ 1,812,679	$ -	$ 1,812,679	$ 14,694,242
Employee benefits	368,834	431,083	642,609	309,268	362,151	172,634	212,254	2,498,833	270,873	-	270,873	2,769,706
Payroll taxes	191,161	262,445	281,516	182,092	203,053	136,080	89,232	1,345,579	123,788	-	123,788	1,469,367
Total salaries and related expenses	2,610,078	3,139,816	3,714,987	2,156,569	2,362,332	1,429,477	1,312,716	16,725,975	2,207,340	-	2,207,340	18,933,315
Professional fees - Contract services	2,045,031	635,724	1,405,484	41,217	134,552	14,651	54,447	4,331,106	213,906	20,043	233,949	4,565,055
Supplies	428,331	39,221	888,273	46,888	290,680	177,617	128,545	1,999,555	35,784	9,446	45,230	2,044,785
Telephone	38,745	123,814	93,999	40,224	28,650	34,384	12,778	372,594	133,974	-	133,974	506,568
Postage and shipping	1,246	5,196	674,841	6,017	1,044	268	1,533	690,145	5,733	-	5,733	695,878
Occupancy	177,123	208,068	374,757	229,602	320,579	43,210	229,943	1,583,282	403,200	1,385	404,585	1,987,867
Equipment rental and maintenance	38,946	56,700	140,156	71,346	43,060	16,932	34,513	401,653	42,443	-	42,443	444,096
Outside printing and artwork	3,566	11,083	36,205	2,343	471	359	685	54,712	6,143	-	6,143	60,855
Local transportation	17,013	50,433	778,259	89,574	51,223	23,611	21,073	1,031,186	15,597	-	15,597	1,046,783
Educational conferences and agency meetings	8,446	16,429	22,186	6,693	9,712	4,558	4,896	72,920	39,574	-	39,574	112,494
Subscriptions and reference publications	-	882	972	357	52	-	-	2,263	3,437	-	3,437	5,700
Special assistance to individuals	100,652	59,043	5,836,951	990,917	27,613	16,455	40,089	7,071,720	-	-	-	7,071,720
Membership dues	-	10,185	23,122	45	11,354	1,182	2,804	48,692	13,880	-	13,880	62,572
Miscellaneous	148	7,814	6,691	469	183,411	10	62,326	260,869	38,754	624	39,378	300,247
Bad debt expense	-	89,570	151,323	10,418	8,812	63,101	25,597	348,821	-	-	-	348,821
Depreciation	24,233	12,412	119,842	31,204	27,859	4,464	12,912	232,926	29,843	3,312	33,155	266,081
Total functional expenses	**$ 5,493,558**	**$ 4,466,390**	**$ 14,268,048**	**$ 3,723,883**	**$ 3,501,404**	**$ 1,830,279**	**$ 1,944,857**	**$ 35,228,419**	**$ 3,189,608**	**$ 34,810**	**$ 3,224,418**	**$ 38,452,837**

Ada S. McKinley Community Services, Inc.

Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services								Support Services			
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Youth - After School	Total	Management and General	Fundraising	Total	2014 Total
Salaries	$ 1,716,368	$ 2,607,339	$ 2,756,819	$ 1,541,880	$ 1,590,037	$ 975,784	$ 963,608	$ 12,151,835	$ 1,890,470	$ -	$ 1,890,470	$ 14,042,305
Employee benefits	323,716	506,578	669,203	291,619	329,130	164,990	185,582	2,470,818	276,316	-	276,316	2,747,134
Payroll taxes	189,642	307,747	313,187	186,422	203,790	129,573	88,440	1,418,801	166,774	-	166,774	1,585,575
Total salaries and related expenses	2,229,726	3,421,664	3,739,209	2,019,921	2,122,957	1,270,347	1,237,630	16,041,454	2,333,560	-	2,333,560	18,375,014
Professional fees - Contract services	1,335,104	1,058,691	1,824,524	65,133	121,741	17,110	136,440	4,558,743	85,646	8,625	94,271	4,653,014
Supplies	288,898	32,821	867,066	51,023	285,538	182,372	141,532	1,849,250	22,680	17,118	39,798	1,889,048
Telephone	42,133	144,363	88,124	44,653	31,020	40,446	18,958	409,697	108,348	6,533	114,881	524,578
Postage and shipping	1,680	6,219	505,602	4,045	2,125	217	2,989	522,877	4,721	259	4,980	527,857
Occupancy	208,146	301,308	368,828	227,374	367,584	42,400	229,092	1,744,732	350,726	25,383	376,109	2,120,841
Equipment rental and maintenance	38,006	56,696	152,338	42,573	39,835	20,842	18,493	368,783	37,475	3,269	40,744	409,527
Outside printing and artwork	374	14,948	29,929	1,699	544	192	6,371	54,057	5,425	48	5,473	59,530
Local transportation	11,353	64,501	786,296	79,376	46,907	21,276	19,209	1,028,918	20,014	-	20,014	1,048,932
Educational conferences and agency meetings	850	12,264	12,646	8,824	9,080	4,697	4,075	52,436	46,033	-	46,033	98,469
Subscriptions and reference publications	-	-	681	293	267	259	-	1,500	5,765	-	5,765	7,265
Special assistance to individuals	19,404	47,738	6,204,022	866,594	31,773	20,077	16,783	7,206,391	-	-	-	7,206,391
Membership dues	42	9,960	16,033	3,045	10,510	2,910	466	42,966	13,161	-	13,161	56,127
Miscellaneous	195	4,008	11,675	2,259	190,677	252	65,888	274,954	45,287	4,719	50,006	324,960
Bad debt expense	-	266,587	36,175	2,441	-	22,904	(1,762)	326,345	(540)	-	(540)	325,805
Depreciation	27,936	38,598	124,725	43,866	45,029	6,757	15,181	302,092	30,676	-	30,676	332,768
Total functional expenses	**$ 4,203,847**	**$ 5,480,366**	**$ 14,767,873**	**$ 3,463,119**	**$ 3,305,587**	**$ 1,653,058**	**$ 1,911,345**	**$ 34,785,195**	**$ 3,108,977**	**$ 65,954**	**$ 3,174,931**	**$ 37,960,126**

Ada S. McKinley Community Services, Inc.

Statement of Cash Flows

	Year Ended June 30, 2016	Year Ended June 30, 2015
Cash Flows from Operating Activities		
Decrease in net assets	$ (2,667,099)	$ (176,692)
Adjustements to reconcile decrease in net assets to net cash from operating activities:		
Realized and change in unrealized loss on investments	33,060	29,698
Provisions for bad debts	335,564	325,805
Depreciation and amortization	266,082	353,666
Contributions to endowment	(2,414)	(288)
Net periodic benefit cost	468,175	521,450
Pension-related change other than periodic pension expense	3,382,719	661,870
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	673,515	(1,371,425)
Change in advances/due from affiliates	(165,914)	520,059
Other receivables	(5,818)	(3,192)
Other assets	(29,764)	(32,566)
Accounts payable and accrued expenses	68,877	69,458
Accrued wages and related expenses	402,519	(152,576)
Settlements payable and other liabilities	244,015	(98,856)
Deferred revenue	(89,430)	110,079
Pension benefit obligation	(900,000)	(900,000)
Net cash provided by (used in) operating activities	2,014,087	(143,510)
Cash Flows from Investing Activities		
Purchase of property and equipment	(90,939)	(65,327)
Purchase of investments	(31,467)	(36,727)
Net cash used in investing activities	(122,406)	(102,054)
Cash Flows from Financing Activities		
Repayment of mortgage notes payable	(70,722)	(503,279)
Contributions to endowment	2,414	288
Payments made on project bonds through refinance	-	(450,000)
Net cash used in financing activities	(68,308)	(952,991)
Net Increase (Decrease) in Cash and Cash Equivalents	1,823,373	(1,198,555)
Cash and Cash Equivalents - Beginning of year	2,083,909	3,282,464
Cash and Cash Equivalents - End of year	**$ 3,907,282**	**$ 2,083,909**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 93,783**	**$ 144,482**