KPMG

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Marklund Children's Home:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Marklund Children's Home, d/b/a Marklund, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' 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. Those standards require that we plan and perform the audit 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 auditors' 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 Marklund Children's Home, d/b/a Marklund as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
October 29, 2018

MARKLUND CHILDREN’S HOME
D/B/A MARKLUND

Consolidated Balance Sheets

June 30, 2018 and 2017

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	2,124,430	820,532
Receivables:			
Resident accounts, less allowance for doubtful accounts of approximately $278,000 in 2018 and $259,000 in 2017		2,458,471	3,414,284
Other		945,590	724,748
Assets whose use is limited or restricted		56,491	57,002
Inventories		90,820	83,112
Prepaid expenses		299,013	233,175
Other assets		189,277	713,479
Total current assets		6,164,092	6,046,332
Assets whose use is limited or restricted, net of current portion		16,081,991	14,991,661
Land, buildings, and equipment, net of accumulated depreciation		19,624,632	20,577,690
Total assets	$	41,870,715	41,615,683
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term notes payable	$	152,090	220,680
Accounts payable		268,199	430,636
Accrued liabilities:			
Compensation and related payables		701,069	365,441
Other		1,062,274	1,479,106
Total current liabilities		2,183,632	2,495,863
Long-term liabilities:			
Notes payable, net of current portion		834,111	1,610,016
Net assets:			
Unrestricted		30,978,656	29,700,170
Temporarily restricted		291,830	842,477
Permanently restricted		7,582,486	6,967,157
Total net assets		38,852,972	37,509,804
Total liabilities and net assets	$	41,870,715	41,615,683

See accompanying notes to consolidated financial statements.

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2018 and 2017

	2018	2017
Revenue and support:		
Net resident service revenue	$ 14,878,734	13,010,498
School services	6,278,653	4,433,450
Developmental training	3,420,200	2,908,920
Other revenue	1,043,020	1,259,679
Total revenue and support	25,620,607	21,612,547
Expenses:		
Salaries and wages	16,797,875	14,010,921
Employee benefits	4,379,384	3,569,212
Consulting	476,479	521,678
Medical supplies	680,451	596,097
Food and dietary	447,620	377,843
Rent, utilities, and occupancy	782,947	739,173
Depreciation	1,953,976	1,753,956
Illinois Medicaid program assessment	869,948	791,458
Other	1,951,597	1,647,793
Total expenses	28,340,277	24,008,131
Revenue and support deficient of expenses	(2,719,670)	(2,395,584)
Nonoperating gains, net:		
Unrestricted gifts and bequests	1,989,534	1,672,478
Contribution of excess assets over liabilities	—	3,953,755
Investment income	912,533	1,010,387
Other	23,240	5,425
Total nonoperating gains, net	2,925,307	6,642,045
Revenue, support, and gains in excess of expenses and losses	205,637	4,246,461
Other changes in unrestricted net assets:		
Net assets released from restriction used for purchase of property and equipment	1,072,849	444,477
Increase in unrestricted net assets	$ 1,278,486	4,690,938

See accompanying notes to consolidated financial statements.

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

		2018	2017
Unrestricted net assets:			
Revenue, support, and gains deficient of expenses and losses	$	205,637	4,246,461
Net assets released from restriction used for purchase of property and equipment		1,072,849	444,477
Increase in unrestricted net assets		1,278,486	4,690,938
Temporarily restricted net assets:			
Contributions for specific purposes		1,150,103	1,711,953
Net assets from acquisition		—	112,762
Net assets released from restriction for operations		(627,901)	(948,381)
Net assets released from restriction used for purchase of property and equipment		(1,072,849)	(444,477)
(Decrease) increase in temporarily restricted net assets		(550,647)	431,857
Permanently restricted net assets:			
Contributions to be held in perpetuity		615,329	461,765
Change in net assets		1,343,168	5,584,560
Net assets at beginning of year		37,509,804	31,925,244
Net assets at end of year	$	38,852,972	37,509,804

See accompanying notes to consolidated financial statements.

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities and gains:			
Change in net assets	$	1,343,168	5,584,560
Adjustments to reconcile change in net assets to net cash provided by operating activities and gains:			
Depreciation		1,953,976	1,753,956
Provision for uncollectible accounts		19,000	12,500
Change in net unrealized gains and losses on trading securities		(448,890)	(314,919)
Realized gains on investments, net		(71,438)	(441,904)
Restricted contributions		(1,765,432)	(2,173,718)
Net assets released from restrictions and used for operations		627,901	948,381
Contribution of excess assets over liabilities		—	(3,953,755)
Changes in assets and liabilities:			
Receivables		715,971	(977,700)
Inventories		(7,708)	(1,927)
Prepaid expenses		(65,838)	(33,664)
Other assets		524,202	(3,329)
Accounts payable		(162,437)	(120,840)
Accrued liabilities		(81,204)	23,733
Net cash provided by operating activities and gains		2,581,271	301,374
Cash flows from investing activities:			
Purchases of assets limited or restricted as to use		(1,904,888)	(4,638,758)
Proceeds from sale or maturities of assets limited or restricted as to use		1,335,397	2,656,659
Acquisition of land, buildings, and equipment		(1,000,918)	(577,954)
Net cash used in investing activities		(1,570,409)	(2,560,053)
Cash flows from financing activities:			
Proceeds from issuance of notes payable		—	1,550,000
Repayments of notes payable		(844,495)	(2,873,124)
Proceeds from draws on line of credit		6,282,289	5,583,865
Payments on line of credit		(6,282,289)	(5,583,865)
Cash received from CEC acquisition		—	2,334,809
Net assets released from restrictions and used for operations		(627,901)	(948,381)
Restricted contributions		1,765,432	2,173,718
Net cash provided by financing activities		293,036	2,237,022
Net change in cash and cash equivalents		1,303,898	(21,657)
Cash and cash equivalents at beginning of year		820,532	842,189
Cash and cash equivalents at end of year	$	2,124,430	820,532
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	63,565	57,870
Noncash adjustments for purchase accounting:			
Accounts receivable	$	—	(533,876)
Prepaid expenses		—	(18,537)
Other assets		—	(42,436)
Land, buildings, and equipment		—	(4,654,893)
Accounts payable		—	288,894
Accrued expenses		—	188,082
Notes payable		—	3,153,820

See accompanying notes to consolidated financial statements.

(1) Description of Organization and Summary of Significant Accounting Policies

Marklund Children's Home is a not-for-profit organization that provides residential, healthcare, educational, and training services to developmentally disabled infants, children, and young adults. The accompanying consolidated financial statements include the accounts of Marklund Children's Home and Marklund Charities (Charities) (collectively referred to as Marklund). Marklund Children's Home serves as the parent entity of Charities through the authority to approve board of directors' members and the holding of certain reserve powers. Charities is a not-for-profit private organization that provides fund-raising activities of Marklund.

Effective October 31, 2016, The Center for Exceptional Care (CEC), d/b/a Little Angels, became an affiliate of Marklund through an agreement for purchase and sale of assets and transfer of operations with no consideration paid. For accounting purposes, the transaction is considered an acquisition under Accounting Standards Codification (ASC) Subtopic 958-805, *Not-for-profit entities: Business Combinations*.

The acquisition-date fair value of identifiable assets and liabilities of the CEC at October 31, 2016 consisted of the following:

Fair value of identifiable assets:		
Cash and cash equivalents	$	2,334,809
Accounts receivable		533,876
Prepaid expenses		18,537
Other assets		42,436
Land, buildings, and equipment		4,654,893
Fair value of identifiable liabilities:		
Accounts payable		288,894
Accrued expenses		188,082
Notes payable		3,153,820
Contribution of excess assets over liabilities	$	3,953,755

The valuation of land, buildings, and equipment, accounts receivable, and other has been completed. In valuing these assets and liabilities, fair values were based on, but not limited to, independent appraisals and replacement costs.

The transaction resulted in a contribution of excess assets over liabilities of $3,953,755 recorded as of the October 31, 2016 acquisition date. Merger-related costs for the acquisition, including transaction costs, due diligence costs, and other integration expenses were $115,100 and were recorded as other expense by Marklund in the accompanying 2017 consolidated statement of operations and changes in unrestricted net assets.

If the acquisition of the CEC had occurred on July 1, 2016, the following unaudited pro forma results of operations would have included a $5,368,649 increase to total revenue and a $6,063,820 increase to total expenses.

All significant intercompany balances and transactions have been eliminated in consolidation.

A summary of the significant accounting policies of Marklund follows:

- The consolidated statements of operations and changes in unrestricted net assets include revenue, support, and gains deficient of expenses and losses. Transactions deemed to be ongoing, major, or central to the provision of client services are reported as revenue and expenses. Transactions incidental to the provision of client services are reported as gains and losses. Changes in unrestricted net assets that are excluded from revenue, support, and gains deficient of expenses and losses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that, by donor restrictions, were to be used for the purpose of acquiring such assets), unrestricted gifts and bequests, contribution of excess assets over liabilities, investment return, and other.
- The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- Net resident service revenue is recognized as services are provided to residents. School services and developmental training revenue are recognized as day services are provided to students.
- Temporarily restricted net assets are those whose use by Marklund has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Marklund in perpetuity. Temporarily restricted net assets represent amounts primarily restricted by donors or grantors for future capital acquisitions and facilities development. Permanently restricted net assets represent investments to be held in perpetuity, the income from which is unrestricted and expendable to support operations.
- Unconditional promises to give cash and other assets are reported at fair value at the date the promises are received. Unrestricted contributions and bequests are reported as nonoperating gains. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in unrestricted net assets as net assets released from restriction. Net assets released from restriction for operating purposes are included with other revenue. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.
- Cash and cash equivalents include demand deposits and investments in highly liquid instruments with maturities of three months or less at date of purchase excluding amounts included within assets whose use is limited or restricted.

(Continued)

- Marklund Children's Home, Charities, and the CEC are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

  ASC Topic 740, *Income Taxes*, addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under ASC Topic 740, Marklund must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC Topic 740 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods, and requires increased disclosures. As of June 30, 2018 and 2017, Marklund does not have a liability for unrecognized tax benefits.

- Assets whose use is limited or restricted include: assets set aside by the board of directors for internal endowment development funding and the depreciation reserve fund over which the board of directors retains control and may, at its discretion, subsequently use for other purposes; and all donor-restricted investments.
- Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.
- Investments in equity securities and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment return, including interest, dividends, realized gains and losses on investments, and unrealized gains and losses on trading securities are reported as nonoperating gains to the extent not restricted by donors.
- Marklund capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. There were no major projects exceeding one year at June 30, 2018 or 2017.
- Marklund applies the provisions of ASC Subtopic 820-10, *Fair Value Measurement – Overall*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Subtopic 820-10 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Marklund applies the provisions of ASC Subtopic 820-10 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis.

Marklund also applies the provisions of ASC Subtopic 825-10, *Financial Instruments – Overall*, ASC Subtopic 825-10 gives Marklund the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. Marklund's management did not elect to measure any additional eligible financial assets or financial liabilities at fair value.

- In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised 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 requirements of this statement are effective for Marklund for the year ending June 30, 2020. The ASU permits the new revenue recognition guidance to be applied using one of two retrospective application methods. Marklund is in process of determining which application method it will use and the potential effects on the consolidated financial statements.
- In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and results reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information in liquidity, retains the option to present the cash flow statement on a direct or indirect method as well as includes various other additional disclosure requirements. ASU 2016-14 will be effective for Marklund for the year ending June 30, 2019 with retrospective application. Marklund is in process of evaluating the impact of this statement.
- In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures as the nature and extent of leasing activities. ASU No. 2016-02 is effective for not-for-profit entities that are conduit bond obligors for the annual reporting period beginning after December 15, 2018. The requirements of this statement are effective for Marklund for the year ending June 30, 2021. Marklund is in process of evaluating the impact of this statement.
- In November 2016, FASB issued ASU 2016-16, *Restricted Cash*. ASU 2016-18 requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statement of cash flows. ASU 2016-18 is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018, with retrospective application and disclosure. Early adoption of ASU 2016-18 is permitted. The requirements of this statement are effective for Marklund for the year ending June 30, 2020. Marklund is in the process of evaluating the impact of this statement.

(2) Charity Care

Marklund provides a comprehensive range of custodial care, educational, and developmental training services to severely disabled infants, children, and adults. Revenue sources funding such services include the Illinois Department of Human Services (DHS), Medicaid, local governments, school districts, and private payors. The cost of providing services to clients significantly exceeds the amount of revenue received as evidenced by the revenue and support deficient of expenses reported in the accompanying consolidated statements of operations and changes in unrestricted net assets.

In accordance with ASU No. 2010-23, *Measuring Charity Care for Disclosure*, Marklund accounts for charity care as the difference between the cost of caring for residents assisted by Medicaid and the amounts reimbursed for these residents as charity care. Since Marklund does not expect payment for charity care services, charges for charity care are not included in revenue. In addition, Marklund reports the cost of services provided to the community as charity care. Charity care attributable to Medicaid subsidies and community service activities for the years ended June 30, 2018 and 2017 approximated $1,780,807 and $1,945,386, respectively.

(3) Net Resident Service Revenue

Marklund has agreements with third-party payors that provide for reimbursement to Marklund at amounts different from its established rates. Net resident service revenue is recorded based upon estimated net reimbursable amounts. A summary of the basis of reimbursement with the major third-party payor is as follows:

Healthcare Family Services

Marklund participates as a provider of services to disabled children under a Healthcare Family Services (HFS) Medicaid program. Net resident service revenue and developmental training revenue under the HFS Medicaid program for the years ended June 30, 2018 and 2017 approximated $17,105,476 and $14,926,908, respectively. This revenue is based on all-inclusive per diem rates for basic care effective for a period of 12 months. The per diem rates are subject to retroactive adjustment. In the opinion of management, adjustments, if any, proposed by the HFS would not be material to the financial position or results of operations of Marklund. Funding from the HFS may be subject to periodic adjustment as well as to changes in existing payment levels and rates, based on the amount of funding available to HFS. Marklund has continued to experience payment delays in 2018 under the Medicaid program due to timing of funding available to HFS.

On December 4, 2008, the State of Illinois (the State) approved an assessment program to assist in the financing of its Medicaid program, originally through June 30, 2013, which was extended by the State through June 30, 2018. Pursuant to this program, providers within the State are required to remit payment to the State's Medicaid program under an assessment formula approved by the Centers for Medicare and Medicaid Services. Marklund has included its annual assessment of $869,948 and $791,458 as an operating expense in the accompanying 2018 and 2017 consolidated statements of operations and changes in unrestricted assets, respectively.

(4) Concentration of Credit Risk

Marklund provides a comprehensive range of custodial care, educational, and developmental training services to severely disabled children and young adults. Marklund grants credit to these individuals and their families and generally does not require collateral or other security in extending credit to them; however, it routinely obtains assignment of (or is otherwise entitled to receive) these individuals' benefits payable under their programs, plans, or policies (e.g., Medicaid and Department of Human Services (DHS)). The following table summarizes the composition of resident accounts receivable at June 30, 2018 and 2017 by funding source:

	2018	2017
Medicaid	99 %	99 %
DHS	1	1
	100 %	100 %

A summary of Marklund's funding source utilization percentages based on net resident service revenue for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Medicaid	92 %	92 %
DHS	6	6
Other	2	2
	100 %	100 %

(5) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost or, if donated, at fair value at the date of donation, less accumulated depreciation and amortization. A summary of land, buildings, and equipment at June 30, 2018 and 2017 follows:

	2018	2017
Land	$ 5,199,517	5,199,517
Land improvements	2,661,069	2,518,470
Buildings and improvements	29,243,242	28,953,189
Furniture and equipment	7,448,270	6,969,953
	44,552,098	43,641,129
Less accumulated depreciation	24,927,466	23,063,439
	$ 19,624,632	20,577,690

Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Ranges of depreciable lives include land improvements, 2–10 years; building and improvements, 5–20 years; and furniture and equipment, 3–8 years. As of June 30, 2018 and 2017, there were no contractual commitments outstanding.

(6) Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on pledge amounts is computed using interest rates applicable to the years in which the promises are received, which is assumed to be 6% for 2018 and 2017. Amortization of pledge discounts is included in temporarily and permanently restricted contributions. Included in assets whose use is limited or restricted are the following pledges receivable as of June 30, 2018 and 2017:

		2018	2017
Pledges receivable before unamortized discount and allowance for uncollectible pledges	$	65,000	135,000
Less unamortized discount		7,150	13,116
Subtotal		57,850	121,884
Less allowance for uncollectible pledges		1,359	2,096
Net pledges receivable	$	56,491	119,788
Amounts due in:			
Less than one year	$	56,491	57,002
One to five years		—	62,786
Total	$	56,491	119,788

(7) Assets Whose Use is Limited or Restricted

Marklund reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices. A summary of the composition of Marklund's investment portfolio, all of which is reported as assets whose use is limited or restricted, at June 30, 2018 and 2017 is as follows:

		2018	2017
Cash and cash equivalents	$	3,345,921	3,563,967
Pledges receivable		56,491	119,788
Equity securities and mutual funds		9,427,562	8,447,482
Fixed-income mutual funds		3,308,508	2,917,426
	$	16,138,482	15,048,663

The composition of investment return on Marklund's investment portfolio for the years ended June 30, 2018 and 2017 is as follows:

		2018	2017
Interest and dividend income, net of fees and expenses	$	392,205	253,564
Net realized gains on sale of investments		71,438	441,904
Change in net unrealized gains and losses on trading securities		448,890	314,919
Investment return	$	912,533	1,010,387

(8) Fair Value Measurement

(a) Fair Value of Financial Instruments

The following methods and assumptions were used by Marklund in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, accounts payable, and accrued liabilities.
- Fair values of investments held as assets whose use is limited or restricted are estimated based on prices provided by its investment managers and its custodian bank except for the carrying value of pledges receivable, which equals fair value. Fair value for equity securities and mutual funds, fixed-income mutual funds, and quoted corporate bonds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- The carrying amount of resident accounts receivable approximates fair value because of the contractual terms and relatively short maturities of this financial instrument. The estimated fair value, however, involves unobservable inputs considered to be Level 3 in the fair value hierarchy.

(b) Fair Value Hierarchy

Marklund adopted ASC Subtopic 820-10 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Marklund has the ability to access at the measurement date.

- Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The following table presents Marklund's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2018:

		Fair value measurements at June 30 using		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Cash and cash equivalents	$ 2,124,430	2,124,430	—	—
Assets whose use is limited or restricted, excluding pledges receivable of $56,491:				
Cash and cash equivalents	$ 3,345,921	3,345,921	—	—
Equity mutual funds	9,427,562	9,427,562	—	—
Fixed-income mutual funds	3,308,508	3,308,508	—	—
	$ 16,081,991	16,081,991	—	—

The following table presents Marklund's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2017:

		Fair value measurements at June 30 using		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Cash and cash equivalents	$ 820,532	820,532	—	—
Assets whose use is limited or restricted, excluding pledges receivable of $119,788:				
Cash and cash equivalents	$ 3,563,967	3,563,967	—	—
Domestic equity securities	3,613,499	3,613,499	—	—
International equity securities	2,451,622	2,451,622	—	—
Equity mutual funds	2,382,361	2,382,361	—	—
Fixed-income mutual funds	2,917,426	2,917,426	—	—
	$ 14,928,875	14,928,875	—	—

(c) Transfers between levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Marklund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the years ended June 30, 2018 and 2017, there were no transfers into or out of Levels 1, 2, or 3.

(9) Notes Payable

Marklund had a total outstanding notes payable of $834,111 and $1,830,696 at June 30, 2018 and 2017, respectively, consisting of the following:

		2018	2017
Unsecured installment note, issued November 1, 2014 bearing interest at a fixed rate of 6.0% at June 30, 2018 with interest payable monthly, advance refunded in 2018	$	—	356,209
Mortgage notes payable, issued October 31, 2016 bearing interest at a fixed rate of 3.699% at June 30, 2018 and 2017, with interest payable monthly		986,201	1,474,487
Total notes payable		986,201	1,830,696
Less current maturities of notes payable		(152,090)	(220,680)
Notes payable, net of current portion	$	834,111	1,610,016

As part of the acquisition of the CEC on October 31, 2016, Marklund assumed the liabilities of the CEC, including an $800,000 unsecured installment note and $2,353,820 in notes payable loans with JPMorgan Chase Bank, N.A. Marklund repaid the $2,353,820 in loans with JPMorgan Chase on October 31, 2016, and paid $76,414 in prepayment premiums and $4,099 in accrued interest.

The $800,000 unsecured installment note with the CEC bore interest at 6.0% interest with an original maturity date of October 31, 2026. Marklund accelerated repayment of the note, including $356,209 and $443,792 of principal repayments in 2018 and 2017, respectively.

On October 31, 2016, Marklund entered into a $1,550,000 mortgage loan with West Suburban Bank. The principal sum and interest on the balance of principal are payable in 59 regular payments of $15,510, based on a 3.699% fixed-interest rate applied to the principal sum, and one final irregular balloon principal payment of $862,879. The mortgage note has an original maturity date of November 1, 2021. In 2018, Marklund accelerated repayment of the note, including $488,286 of principal repayments in 2018.

At June 30, 2018, scheduled principal repayments on the notes payable were as follows:

		Amount
Fiscal year ending:		
2019	$	152,090
2020		157,932
2021		163,874
2022		512,305
Total	$	986,201

(10) Employee Retirement Plans

Marklund also sponsors an employee retirement savings plan (the Plan) that covers substantially all employees. Other significant provisions of the Plan are as follows:

- *Contributions* – The Plan is a defined-contribution plan. Effective March 5, 2012, employer contributions to the Plan are made in the form of matching contributions equal to 50% of each dollar the participant contributes up to the first 3% of eligible employee compensation. Employer-matching contributions to the Plan were $319,092 and $214,223 in 2018 and 2017, respectively.
- *Eligibility* – All employees are eligible to participate in the Plan. Employees are eligible to receive matching contributions after attaining two years of service. The Plan was amended in October 2016 to include prior service with the CEC for eligibility and vesting in the Plan. Employees of the CEC were given the option to roll over their balance from the CEC plan into the Plan.
- *Vesting* – Participants are vested immediately in their contributions and employer matching contributions.

(11) Temporarily Restricted Net Assets

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

		2018	2017
Capital campaign	$	20,877	20,256
Restricted programs		270,953	822,221
	$	291,830	842,477

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, as follows:

		2018	2017
Capital campaign	$	1,072,849	444,477
Restricted programs		627,901	948,381
	$	1,700,750	1,392,858

(12) Endowments

Marklund follows the guidance of ASC Topic 958, *Not-For-Profit Entities*, related to net asset classification and required disclosures of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA.

Marklund's endowment consists of funds established for a variety of purposes including donor-restricted endowment funds and funds designated by the board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The income on the endowment funds is expendable to support operations of Marklund facilities, as designated by the board, and is recorded through unrestricted assets.

Endowment net assets consist of the following at June 30, 2018:

		Unrestricted	Permanently restricted	Total
Donor-restricted endowment funds	$	4,608,139	7,582,486	12,190,625
Board-designated reserve funds		1,000,000	—	1,000,000
Total endowment net assets	$	5,608,139	7,582,486	13,190,625

Endowment net assets consist of the following at June 30, 2017:

		Unrestricted	Permanently restricted	Total
Donor-restricted endowment funds	$	3,783,880	6,967,157	10,751,037
Board-designated reserve funds		1,000,000	—	1,000,000
Total endowment net assets	$	4,783,880	6,967,157	11,751,037

Changes in the endowment net assets for the year ended June 30, 2018 are as follows:

		Unrestricted	Permanently restricted	Total
Endowment net assets, July 1, 2017	$	4,783,880	6,967,157	11,751,037
Investment return		824,259	—	824,259
Contributions		—	615,329	615,329
Appropriated expenditures of endowment funds		—	—	—
Endowment net assets, June 30, 2018	$	5,608,139	7,582,486	13,190,625

Changes in the endowment net assets for the year ended June 30, 2017 are as follows:

		Unrestricted	Permanently restricted	Total
Endowment net assets, July 1, 2016	$	3,782,199	6,505,392	10,287,591
Investment return		1,001,681	—	1,001,681
Contributions		—	461,765	461,765
Appropriated expenditures of endowment funds		—	—	—
Endowment net assets, June 30, 2017	$	4,783,880	6,967,157	11,751,037

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Marklund to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. Subsequent gains restore the fair value of the assets of the endowment fund to the required level. There were no deficiencies as of June 30, 2018 or 2017.

(b) Return Objectives and Risk Parameters

Marklund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a blended benchmark composed of the major indices related to the investment allocation being targeted for the portfolio.

(Continued)

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Marklund 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). Marklund targets a diversified asset allocation that places emphasis on investments in equities, international equities, and mutual funds to achieve its long-term return objectives within prudent risk constraints. Major investment decisions are authorized by the Finance Committee, which oversees the investment program in accordance with established guidelines.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

Marklund has a policy of spending based on the amount of capital gains, interest, and dividends reinvested in the endowment assets. The spending rate (the annual amount withdrawn from the endowment assets to support the operating budget) is determined by the board based on the investment return expected, but not to exceed 5% of the average fair value of the endowment funds' average fair value over the prior three years through June 30 preceding the fiscal year in which the distribution is planned. In establishing these policies, Marklund considered the expected return on its endowment. Accordingly, Marklund expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

(13) Commitments and Contingencies

(a) Litigation

Marklund is involved in litigation arising in the normal course of business. In consultation with legal counsel, management anticipates that these matters will be resolved without material adverse effect on Marklund's financial position or results of operations.

(b) Line of Credit

Marklund maintains a credit facility agreement with West Suburban Bank (the Bank). The agreement extends a line of credit to Marklund in the principal sum not to exceed $5,000,000 in support of working capital requirements. Interest on the unpaid balance is paid monthly based on a minimum annual rate of 4% or 1% point under the Bank's prime rate. At June 30, 2018, there were no outstanding draws on the line of credit. The agreement expires on November 1, 2018.

Marklund's line of credit is secured by Marklund's unrestricted receivables and real and personal property.

(c) Investment Risk and Uncertainties

Marklund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

(14) Functional Expenses

Marklund provides services to its residents as well as individuals within its geographic location. Expenses related to providing these services are as follows:

		2018	2017
General and administrative	$	2,252,892	1,863,437
Fund-raising (includes in kind)		1,153,762	1,041,599
Residential services		16,028,871	13,614,641
Nonresidential services – developmental training and school services		8,904,752	7,488,454
	$	28,340,277	24,008,131

(15) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, Marklund evaluated subsequent events after the consolidated balance sheet date of June 30, 2018 through October 29, 2018, which was the date the consolidated financial statements were issued, noting no events requiring recording or disclosure.