MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Financial Statements

June 30, 2020 and 2019

(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 Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Marklund Children's Home d/b/a Marklund (Marklund), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets without donor restrictions, 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 Consolidated 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, 2020 and 2019, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1 to the consolidated financial statements, in 2020, Marklund adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* as amended, and ASU No. 2016-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

KPMG LLP

Chicago, Illinois
October 26, 2020

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Balance Sheets

June 30, 2020 and 2019

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	6,348,539	250,339
Receivables:			
Resident accounts receivable		3,739,050	4,741,106
Other		894,677	877,764
Pledges receivable		709,603	280,513
Inventories		91,805	92,109
Prepaid expenses		330,340	390,069
Other assets		477,230	284,895
Total current assets		12,591,244	6,916,795
Assets whose use is limited or restricted		19,502,085	17,485,051
Pledges receivable, net of current portion		1,282,287	782,477
Land, buildings, and equipment, net of accumulated depreciation		27,155,669	18,662,459
Total assets	$	60,531,285	43,846,782
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term notes payable	$	272,816	—
Accounts payable		294,114	387,067
Accrued liabilities:			
Compensation and related payables		2,183,044	1,065,725
Other		2,058,701	1,396,750
Line of credit payable		—	1,200,052
Construction payables		1,047,238	—
Total current liabilities		5,855,913	4,049,594
Long-term liability:			
Notes payable, net of current portion		6,274,768	—
Paycheck Protection Program loan		3,879,650	—
Net assets:			
Without donor restrictions		33,632,724	30,291,241
With donor restrictions		10,888,230	9,505,947
Total net assets		44,520,954	39,797,188
Total liabilities and net assets	$	60,531,285	43,846,782

See accompanying notes to consolidated financial statements.

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended June 30, 2020 and 2019

		2020	2019
Revenue and support:			
Resident service revenue	$	20,571,133	16,451,877
School services		6,684,037	5,669,683
Community day services		3,566,280	3,514,798
Other revenue		189,073	316,605
Total revenue and support		31,010,523	25,952,963
Expenses:			
Salaries and wages		19,919,347	17,879,258
Employee benefits		5,690,773	4,750,421
Consulting		520,393	448,558
Medical supplies		746,110	707,796
Food and dietary		473,269	464,972
Rent, utilities, and occupancy		800,766	896,167
Depreciation		2,062,363	2,020,114
Illinois Medicaid program assessment		985,972	891,584
Other		1,954,081	1,654,328
Total expenses		33,153,074	29,713,198
Revenue and support deficient of expenses		(2,142,551)	(3,760,235)
Nonoperating gains, net:			
Unrestricted gifts and bequests		3,734,022	1,863,819
Investment return, net		602,339	465,652
Other		18,121	26,687
Total nonoperating gains, net		4,354,482	2,356,158
Revenue, support, and gains in excess (deficient) of expenses and losses		2,211,931	(1,404,077)
Other changes in net assets without donor restrictions:			
Net assets released from restriction used for purchase of land, buildings, and equipment		1,129,552	716,662
Increase (decrease) in net assets without donor restrictions	$	3,341,483	(687,415)

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, 2020 and 2019

	2020	2019
Net assets without donor restrictions:		
Revenue, support, and gains in excess (deficient) of expenses and losses	$ 2,211,931	(1,404,077)
Net assets released from restriction used for purchase of land, buildings, and equipment	1,129,552	716,662
Increase (decrease) in net assets without donor restrictions	3,341,483	(687,415)
Net assets with donor restrictions:		
Contributions for specific purposes	853,346	1,416,681
Pledges made for specific purposes	1,653,508	1,062,990
Net assets released from restriction for operations	(14,085)	(146,945)
Net assets released from restriction used for purchase of land, buildings, and equipment	(1,129,552)	(716,662)
Contributions to be held in perpetuity	19,066	15,567
Increase in net assets with donor restrictions	1,382,283	1,631,631
Change in net assets	4,723,766	944,216
Net assets at beginning of year	39,797,188	38,852,972
Net assets at end of year	$ 44,520,954	39,797,188

See accompanying notes to consolidated financial statements.

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

		2020	2019
Cash flows from operating activities and gains:			
Change in net assets	$	4,723,766	944,216
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities and gains:			
Depreciation		2,062,363	2,020,114
Change in net unrealized gains and losses on trading securities		153,364	36,399
Realized gains on investments, net		(330,867)	(9,928)
Restricted contributions		(872,412)	(1,432,248)
Net assets released from restrictions and used for operations		14,085	146,945
Changes in assets and liabilities:			
Receivables		985,143	(2,214,809)
Pledges receivable		(928,900)	(1,006,499)
Inventories		304	(1,289)
Prepaid expenses		59,729	(91,056)
Other assets		(192,335)	(95,618)
Accounts payable		(92,953)	118,868
Accrued liabilities		1,779,270	699,132
Net cash provided by (used in) operating activities and gains		7,360,557	(885,773)
Cash flows from investing activities:			
Purchases of assets limited or restricted as to use		(13,404,734)	(8,831,120)
Proceeds from sale or maturities of assets limited or restricted as to use		11,565,203	7,401,589
Acquisition of land, buildings, and equipment		(9,508,335)	(1,057,941)
Net cash used in investing activities		(11,347,866)	(2,487,472)
Cash flows from financing activities:			
Proceeds from Paycheck Protection Program loan		3,879,650	—
Proceeds from notes payable		6,547,584	—
Repayments of notes payable		—	(986,201)
Proceeds from draws on line of credit		8,721,761	3,964,583
Payments on line of credit		(9,921,813)	(2,764,531)
Net assets released from restrictions and used for operations		(14,085)	(146,945)
Restricted contributions		872,412	1,432,248
Net cash provided by financing activities		10,085,509	1,499,154
Net change in cash and cash equivalents		6,098,200	(1,874,091)
Cash and cash equivalents at beginning of year		250,339	2,124,430
Cash and cash equivalents at end of year	$	6,348,539	250,339
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	80,909	32,645
Supplemental disclosure of noncash transactions:			
Unpaid payables of building and equipment		1,047,238	—

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 fundraising 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.

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 net assets without donor restrictions include revenue, support, and gains in excess (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 net assets without donor restriction that are excluded from revenue and support deficient of expenses, 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, 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.
- These consolidated financial statements have been prepared to focus on Marklund as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances into two classes of net assets—without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

  – *Without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and are resources available to support operations; this category includes board-designated funds functioning as endowment, which represents funds that have been appropriated by the board, the income from which is used in support of the purposes and mission of Marklund.

– *With donor restrictions* – Net assets subject to donor-imposed restriction for use for a particular purpose; Marklund's unspent contributions are included in this class if the donor limited their use. Marklund's donor-restricted endowment funds, which must be maintained in perpetuity with the income from which used in support of the purposes and mission of Marklund, are included in net assets with donor restrictions.

  When a donor's restriction is satisfied, either by using the resources in a manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions and are reported in the consolidated statements of operations and changes in net assets without donor restrictions as net assets released from restriction.

All revenue and net gains are reported as increases in net assets without donor restrictions in the consolidated statements of operations and changes in net assets without donor restriction unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

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 pledges are not recognized until the conditions on which they depend are substantially met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. 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.

- Resident service revenue performance obligations are satisfied and revenue is recognized over-time as services are provided to residents. School services and community day services performance obligations are satisfied and revenue is recognized over-time as services are provided to students. Revenue is disaggregated in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers,* on the consolidated statements of operations and changes in net assets without donor restrictions
- 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.
- 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 50% 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, 2020 and 2019, 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 developmentally disabled children's 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 change in unrealized gains and losses on trading securities, is 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.
- 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.

- Marklund adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* effective July 1, 2019*.* The ASU requires an entity to recognize revenue when the entity transfers control of promised goods and services to the customer. Revenue is recognized in an amount that reflects the consideration an entity expects to receive in exchange for those goods and services. An entity is also required to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU permits the new revenue recognition guidance to be applied using one of two retrospective application methods. Marklund adopted this guidance effective July 1, 2019 under the modified retrospective method. The adoption did not have an impact on Marklund's results of operations. Analysis of the various provisions of this standard resulted in no significant changes in the way Marklund recognizes revenue; however, the presentation and disclosures of revenue have been enhanced.
- Marklund adopted ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective July 1, 2019. ASU No. 2018-08 clarifies and improves the scope and the accounting guidance regarding the accounting for grants and contracts as exchange transactions or contributions and improve guidance to better distinguish between conditional and unconditional contributions. The adoption of ASU No. 2018-08 did not have a material effect on the consolidated financial statements.
- Marklund adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash, (a Consensus of the FASB Emerging Issues Task Force)*, effective July 1, 2019. ASU No. 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. Marklund adopted this guidance effective July 1, 2019 with no impact to the consolidated financial statements.
- 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 private entities for the annual reporting period beginning after December 15, 2021 (as amended by ASU No. 2020-05). The requirements of this statement are effective for Marklund for the year ending June 30, 2023. Marklund is in process of evaluating the impact of this statement.

(2) COVID Reporting

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. School services and community day services revenues were significantly impacted starting in mid-March as various policies were implemented by Federal, state, and local governments in response to the COVID-19 pandemic that caused many people to remain at home and forced the closure of or limitations on certain businesses.

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law providing temporary and limited relief to businesses during the COVID-19 outbreak. On March 27, 2020, the CARES Act established the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA). Under the PPP, eligible businesses may receive loans from participating financial institutions that are guaranteed by the SBA, and the loans may be forgiven to the extent the proceeds are used to make payroll, payroll-related, and other eligible payments. Participation in the PPP requires an entity to certify to the federal government (a) its eligibility to receive funds and (b) its eligibility to receive loan forgiveness, if applicable.

On May 6, 2020, Marklund qualified for and received a loan pursuant to the PPP from a qualified lender (the "PPP Lender"), for an aggregate principal amount of approximately $3,879,650 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon Marklund's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations and covered utility payments incurred by Marklund. Marklund intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. If the PPP Loan is forgiven, Marklund will recognize the income as a gain on extinguishment of debt when it is legally released from its obligation upon notification of forgiveness from the PPP Lender. To the extent that all or part of the PPP Loan is not forgiven, Marklund will be required to pay interest on the PPP Loan at a rate of 1.0% per annum and commencing on the earlier of the date that the SBA approves forgiveness or October 21, 2021. Principal and interest payments will be required over a two-year period starting at the amortization commencement date. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties and insolvency events. The obligation to repay the PPP Loan may be accelerated upon the occurrence of an event of default. The debt is subsequently measured at amortized cost using the effective interest method to recognize interest expense.

The extent of the COVID-19 pandemic's adverse impact on operating results and financial condition of Marklund has been and will continue to be driven by many factors, most of which are beyond Marklund's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines on resident volumes for an indeterminable length of time, increases in the number of uninsured and underinsured residents as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Because of these and other uncertainties, Marklund cannot estimate the length or severity of the impact of the pandemic on the business and the results of its operations.

(Continued)

(3) 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 net assets without donor restrictions.

In accordance with ASC Topic 954, *Health Care Entities*, 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, 2020 and 2019 approximated $852,521 and $2,414,473, respectively.

(4) Resident Service Revenue

Marklund has agreements with third-party payors that provide for reimbursement to Marklund at amounts different from its established rates. 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. Resident service revenue and community day services revenue under the HFS Medicaid program for the years ended June 30, 2020 and 2019 approximated $22,880,538 and $18,692,538, 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. Funding from 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 2020 under the Medicaid program due to timing of funding available to HFS.

Marklund participates in the State of Illinois Hospital Assessment program. 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 $985,972 and $891,584 as an operating expense in the accompanying 2020 and 2019 consolidated statements of operations and changes in net assets without donor restrictions, respectively.

(5) 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 DHS). The following table summarizes the composition of resident accounts receivable at June 30, 2020 and 2019 by funding source:

	2020	2019
Medicaid	99 %	99 %
DHS	1	1
	100 %	100 %

A summary of Marklund's funding source utilization percentages based on resident service revenue for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Medicaid	94 %	93 %
DHS	5	6
Other	1	1
	100 %	100 %

(6) 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, 2020 and 2019 follows:

	2020	2019
Land	$ 5,199,517	5,199,517
Land improvements	2,718,484	2,707,669
Buildings and improvements	29,694,293	29,384,984
Furniture and equipment	6,300,602	7,267,893
	43,912,896	44,560,063
Less accumulated depreciation	(26,678,871)	(26,272,540)
Construction in progress	9,921,644	374,936
	$ 27,155,669	18,662,459

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, 2020, there were outstanding contractual commitments of $66,555 related to the construction of a new building for students on the autism spectrum and multi needs. Construction of this building began in July 2019, was completed in July 2020, and became operational in August 2020.

(7) 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 2.5% for 2020 and 2019. Amortization of pledge discounts is included in net assets with donor restrictions. The following are pledges receivable as of June 30, 2020 and 2019:

	2020	2019
Pledges receivable before unamortized discount and allowance for uncollectible pledges	$ 2,164,891	1,251,000
Less unamortized discount	111,396	162,289
Subtotal	2,053,495	1,088,711
Less allowance for uncollectible pledges	61,605	25,721
Net pledges receivable	$ 1,991,890	1,062,990
Amounts due in:		
Less than one year	$ 709,603	280,513
One to five years	1,282,287	782,477
Total	$ 1,991,890	1,062,990

(8) 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, 2020 and 2019 is as follows:

		2020	2019
Cash equivalents	$	5,966,802	4,386,732
Pledges receivable		1,991,890	1,062,990
Equity securities and mutual funds		9,822,217	9,502,323
Fixed-income mutual funds		3,713,066	3,595,996
	$	21,493,975	18,548,041

The composition of investment return on Marklund's investment portfolio for the years ended June 30, 2020 and 2019 is as follows:

		2020	2019
Interest and dividend income	$	490,184	555,761
Net realized gains on sale of investments		330,867	9,928
Change in net unrealized gains and losses on trading securities		(153,364)	(36,399)
Investment management fees		(65,348)	(63,638)
Investment return, net	$	602,339	465,652

(9) 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 approximates 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 follows 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, 2020:

	Fair value	Fair value measurements at June 30 using		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 6,348,539	6,348,539	—	—
Assets whose use is limited or restricted, excluding pledges receivable of $1,991,890:				
Cash equivalents	$ 5,966,802	5,966,802	—	—
Equity mutual funds	9,822,217	9,822,217	—	—
Fixed-income mutual funds	3,713,066	3,713,066	—	—
	$ 19,502,085	19,502,085	—	—

The following table presents Marklund's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2019:

		Fair value	Fair value measurements at June 30 using Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$	250,339	250,339	—	—
Assets whose use is limited or restricted, excluding pledges receivable of $1,062,990:					
Cash equivalents	$	4,386,732	4,386,732	—	—
Equity mutual funds		9,502,323	9,502,323	—	—
Fixed-income mutual funds		3,595,996	3,595,996	—	—
	$	17,485,051	17,485,051	—	—

(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, 2020 and 2019, there were no transfers into or out of Levels 1, 2, or 3.

(10) Notes payable

Marklund had outstanding notes payable at June 30, 2020 consisting of the following:

Construction loan payable, issued August 20, 2019, bearing interest at a rate of 1.67% at June 30, 2020, with interest paid monthly	$	6,547,584
Total notes payable		6,547,584
Less current maturities of notes payable		(272,816)
Notes payable, net of current portion	$	6,274,768

On August 20, 2019, Marklund entered into a new $9,000,000 construction loan with St. Charles Bank and Trust Company to fund the building of a school to meet the needs of children with multiple medical needs and those with autism spectrum disorders. Interest under the loan is payable based on the monthly LIBOR rate plus 1.50% for years 1, 9, and 10 of the loan. For years 2 through 8, interest is based on a fixed rate established on the first anniversary date of the loan at the current LIBOR 7-year swap rate plus 200 basis points per year to fix the rate of interest payable. Principal and interest payments are payable monthly, with monthly principal payments beginning on after the first anniversary date of the through the original lo an maturity date of August 20, 2029.

At June 30, 2020, scheduled principal repayments on the notes payable were as follows:

		Amount
Fiscal year ending:		
2021	$	272,816
2022		327,379
2023		327,379
2024		327,379
2025		327,379
Thereafter		4,965,252
Total	$	6,547,584

(11) 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. Employer contributions to the Plan in 2020 and 2019 were 100% of each dollar the participant contributes, up to a maximum of 5% of eligible compensation for 2020 and 4% for 2019. Employer-matching contributions to the Plan were $638,208 and $442,487 in 2020 and 2019, respectively.
- *Eligibility* – All employees are eligible to participate in the Plan. Employees are eligible to receive matching contributions at the start of the first quarter following the date of hire.
- *Vesting* – Participants are vested immediately in their contributions and are 100% vested in the employer contributions at their two-year anniversary.

(12) Net Assets

Net assets at June 30, 2020 and 2019 consisted of the following:

		2020	2019
Net assets:			
Without donor restrictions:			
Designated by the board:			
Developmentally disabled children fund	$	3,925,638	2,941,524
Board-restricted endowment		1,000,000	1,000,000
Unrestricted endowment income and realized gains		5,680,107	5,022,716
Undesignated		23,026,979	21,327,001
Total net assets without donor restrictions		33,632,724	30,291,241
With donor restrictions:			
Donor-restricted endowments		7,617,119	7,598,053
Purpose restricted – capital campaign		2,834,926	1,477,703
Purpose restricted – restricted programs		436,185	430,191
Total net assets with donor restrictions		10,888,230	9,505,947
Total net assets	$	44,520,954	39,797,188

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

		2020	2019
Capital campaign	$	1,129,552	716,662
Restricted programs		14,085	146,945
	$	1,143,637	863,607

(13) Endowments

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 net assets without donor restrictions.

The "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), which was enacted in the state of Illinois in 2009, does not preclude Marklund from spending below the original gift value of donor-restricted endowment funds.

For accounting and reporting purposes, Marklund classifies as net assets with donor restrictions, the historical value of donor-restricted endowment funds, which includes (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) changes to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation (depreciation) on donor-restricted endowment funds, which are available for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift.

To make a determination to expend or accumulate donor-restricted endowment funds, Marklund considers a number of factors, including the duration and preservation of the fund, purposes of the donor-restricted fund, general economic conditions, the possible effects of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of Marklund, and the investment policies of Marklund.

(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 net assets with donor restrictions. 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, 2020 or 2019.

(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.

(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.

During 2020, Marklund had the following activities related to endowment net assets:

		Board-designated and unrestricted endowment income	Donor-restricted endowment funds	Total
Endowment net assets, July 1, 2019	$	6,022,716	7,598,053	13,620,769
Investment return		583,754	—	583,754
Contributions		73,637	19,066	92,703
Appropriated expenditures of endowment funds		—	—	—
Endowment net assets, June 30, 2020	$	6,680,107	7,617,119	14,297,226

During 2019, Marklund had the following activities related to endowment net assets:

		Board-designated and unrestricted endowment income	Donor-restricted endowment funds	Total
Endowment net assets, July 1, 2018	$	5,608,139	7,582,486	13,190,625
Investment return		414,577	—	414,577
Contributions		—	15,567	15,567
Appropriated expenditures of endowment funds		—	—	—
Endowment net assets, June 30, 2019	$	6,022,716	7,598,053	13,620,769

(14) 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 St. Charles Bank and Trust Company (the Bank). The agreement extends a line of credit to Marklund in the principal sum not to exceed $7,000,000 in support of working capital requirements and was secured by Marklund's unrestricted receivables and real and personal property. Interest on the unpaid balance is paid monthly based on a variable rate determined as the LIBOR rate for the monthly period plus 1.50%. At June 30, 2020, no amounts were drawn on the line of credit.

(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. As a result of the COVID-19 virus, economic uncertainties have arisen which have caused volatility in financial markets and could potentially negatively impact Marklund's investment and business values. The ultimate potential impact of the virus is unknown at this time, but business and investment values are likely to be impacted as a result of the pandemic.

(15) Functional Expenses

Marklund provides services to its residents as well as individuals within its geographic location. The primary program activities of Marklund are residential and day programs. Natural expenses related to more than one functional expense category are allocated using a variety of methods, such as square footage, historic staff time, and actual usage. Expenses related to providing these services for the years ended June 30, 2020 and 2019 are as follows:

	Program activities			Supporting activities			
	Residential	Nonresidential	Total program activities	General and Administrative	Fundraising	Total supporting activities	Total
Salaries and wages	$ 11,190,772	5,890,005	17,080,777	2,027,855	810,715	2,838,570	19,919,347
Employee benefits	3,167,537	1,606,860	4,774,397	689,040	227,336	916,376	5,690,773
Consulting	482,388	38,005	520,393	—	—	—	520,393
Medical supplies	713,332	32,778	746,110	—	—	—	746,110
Food and dietary	460,320	11,909	472,229	1,040	—	1,040	473,269
Rent, utilities, and occupancy	459,187	274,126	733,313	60,465	6,988	67,453	800,766
Depreciation	1,036,944	874,153	1,911,097	151,266	—	151,266	2,062,363
Illinois Medicaid program assessment	985,972	—	985,972	—	—	—	985,972
Other	689,954	345,595	1,035,549	738,193	180,339	918,532	1,954,081
Total 2020 expenses	$ 19,186,406	9,073,431	28,259,837	3,667,859	1,225,378	4,893,237	33,153,074

	Program Activities			Supporting Activities			
	Residential	Nonresidential	Total program activities	General and Administrative	Fundraising	Total supporting activities	Total
Salaries and wages	$ 9,912,403	5,515,358	15,427,761	1,723,582	727,915	2,451,497	17,879,258
Employee benefits	2,527,194	1,435,938	3,963,132	592,704	194,585	787,289	4,750,421
Consulting	427,793	20,765	448,558	—	—	—	448,558
Medical supplies	653,564	54,232	707,796	—	—	—	707,796
Food and dietary	449,129	15,145	464,274	698	—	698	464,972
Rent, utilities, and occupancy	525,029	290,755	815,784	71,193	9,190	80,383	896,167
Depreciation	948,508	917,839	1,866,347	153,767	—	153,767	2,020,114
Illinois Medicaid program assessment	891,584	—	891,584	—	—	—	891,584
Other	664,426	450,608	1,115,034	299,432	239,862	539,294	1,654,328
Total 2019 expenses	$ 16,999,630	8,700,640	25,700,270	2,841,376	1,171,552	4,012,928	29,713,198

(16) Financial Assets and Liquidity Resources

As of June 30, 2020 and 2019, financial and liquidity resources available within one year for operating expenses, line of credit repayments, and construction costs not financed with debt were as follows:

	2020	2019
Cash and cash equivalents	$ 6,348,539	250,339
Receivables	4,633,727	5,618,870
Assets whose use is limited or restricted	21,493,975	18,548,041
Less donor-restricted net assets	(7,617,119)	(9,505,947)
Less board-restricted endowment	(1,000,000)	(1,000,000)
Less board-designated developmentally disabled childrens fund	(3,925,638)	(2,941,524)
Total financial assets available to meet cash needs for general expenditures within one year	$ 19,933,484	10,969,779

Marklund's cash flows fluctuate periodically based on the timing of receipts from the State of Illinois. To accommodate this, Marklund maintains a line of credit of $7,000,000 (note 14), with a full available undrawn amount at June 30, 2020.

(17) 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, 2020 through October 26, 2020, which was the date the consolidated financial statements were issued and other than disclosed below, there were no other items to disclose.

In August 2020, Marklund received CARES Act funding subsequent to June 30, 2020, of $497,075 in general distribution payments.