MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Financial Statements

June 30, 2022 and 2021

(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 d/b/a Marklund:

Opinion

We have audited the consolidated financial statements of Marklund Children's Home d/b/a Marklund (Marklund), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Marklund as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Marklund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Marklund's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Marklund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Marklund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Chicago, Illinois
November 18, 2022

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Balance Sheets

June 30, 2022 and 2021

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	508,538	5,364,970
Receivables:			
Resident accounts receivable		4,524,008	3,662,299
Other		1,671,922	1,168,876
Pledges receivable		378,561	468,486
Inventories		129,734	166,849
Prepaid expenses		514,309	517,512
Agency-held cash – resident deposits		680,340	719,421
Total current assets		8,407,412	12,068,413
Assets whose use is limited or restricted		25,303,964	26,248,241
Pledges receivable, net of current portion		214,657	651,702
Investments		5,007,600	—
Land, buildings, and equipment, net of accumulated depreciation		26,533,452	26,196,302
Total assets	$	65,467,085	65,164,658
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term notes payable	$	383,069	383,069
Accounts payable		408,299	313,171
Accrued liabilities:			
Compensation and related payables		2,981,128	2,084,108
Agency-held resident deposits		680,340	719,421
Other		1,571,672	1,698,677
Construction payables		707,118	—
Total current liabilities		6,731,626	5,198,446
Long-term liability:			
Notes payable, net of current portion		2,169,751	3,507,052
Paycheck protection program loan		—	3,879,650
Net assets:			
Without donor restrictions		47,626,833	42,832,163
With donor restrictions		8,938,875	9,747,347
Total net assets		56,565,708	52,579,510
Total liabilities and net assets	$	65,467,085	65,164,658

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, 2022 and 2021

	2022	2021
Revenue and support:		
Resident service revenue	$ 21,880,286	21,228,437
School services	6,864,675	6,734,694
Community day services	4,266,211	3,833,477
Other revenue	4,345,057	1,082,658
Total revenue and support	37,356,229	32,879,266
Expenses:		
Salaries and wages	22,955,667	21,615,675
Employee benefits	6,200,041	5,927,157
Consulting	754,033	422,656
Medical supplies	1,131,608	926,884
Food and dietary	565,196	494,447
Rent, utilities, and occupancy	1,060,497	1,062,494
Depreciation	2,780,659	2,463,747
Illinois Medicaid program assessment	1,269,750	1,232,899
Other	1,947,918	1,944,574
Total expenses	38,665,369	36,090,533
Revenue and support deficient of expenses	(1,309,140)	(3,211,267)
Nonoperating gains, net:		
Unrestricted gifts and bequests	7,496,936	6,231,648
Investment return, net	(3,014,063)	4,026,681
Other	19,939	42,264
Total nonoperating gains, net	4,502,812	10,300,593
Revenue, support, and gains in excess of expenses and losses	3,193,672	7,089,326
Other changes in net assets without donor restrictions:		
Net assets released from restriction used for purchase of land, buildings, and equipment	1,600,998	2,110,113
Increase in net assets without donor restrictions	$ 4,794,670	9,199,439

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, 2022 and 2021

		2022	2021
Net assets without donor restrictions:			
Revenue, support, and gains in excess of expenses and losses	$	3,193,672	7,089,326
Net assets released from restriction used for purchase of land, buildings, and equipment		1,600,998	2,110,113
Increase in net assets without donor restrictions		4,794,670	9,199,439
Net assets with donor restrictions:			
Contributions for specific purposes		671,804	983,417
Pledges made for specific purposes		46,026	4,619
Net assets released from restriction for operations		(41,854)	(32,381)
Net assets released from restriction used for purchase of land, buildings, and equipment		(1,600,998)	(2,110,113)
Contributions to be held in perpetuity		116,550	13,575
Decrease in net assets with donor restrictions		(808,472)	(1,140,883)
Change in net assets		3,986,198	8,058,556
Net assets at beginning of year		52,579,510	44,520,954
Net assets at end of year	$	56,565,708	52,579,510

See accompanying notes to consolidated financial statements.

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

		2022	2021
Cash flows from operating activities and gains:			
Change in net assets	$	3,986,198	8,058,556
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities and gains:			
Depreciation		2,780,659	2,463,747
Forgiveness of Paycheck Protection Program loan		(3,879,650)	—
Change in net unrealized gains and losses on trading securities		3,985,767	(2,998,587)
Realized gains on investments, net		(46,443)	(657,038)
Restricted contributions		(788,354)	(996,992)
Net assets released from restrictions and used for operations		41,854	32,381
Changes in assets and liabilities:			
Receivables		(1,364,755)	(197,448)
Pledges receivable		526,970	871,702
Inventories		37,115	(75,044)
Prepaid expenses		3,203	(187,172)
Agency-held cash – resident deposits		39,081	(242,191)
Accounts payable		95,128	19,057
Accrued liabilities		730,934	260,461
Net cash provided by operating activities and gains		6,147,707	6,351,432
Cash flows from investing activities:			
Purchases of assets limited or restricted as to use		(15,663,735)	(7,384,433)
Proceeds from sale or maturities of assets limited or restricted as to use		7,661,088	4,293,902
Acquisition of land, buildings, and equipment		(3,117,809)	(1,504,380)
Change in construction payables		707,118	(1,047,238)
Net cash used in investing activities		(10,413,338)	(5,642,149)
Cash flows from financing activities:			
Proceeds from notes payable		—	1,113,793
Repayments of notes payable		(1,337,301)	(3,771,256)
Proceeds from draws on line of credit		5,583,797	1,565,583
Payments on line of credit		(5,583,797)	(1,565,583)
Net assets released from restrictions and used for operations		(41,854)	(32,381)
Restricted contributions		788,354	996,992
Net cash used in financing activities		(590,801)	(1,692,852)
Net change in cash and cash equivalents		(4,856,432)	(983,569)
Cash and cash equivalents at beginning of year		5,364,970	6,348,539
Cash and cash equivalents at end of year	$	508,538	5,364,970
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	78,389	154,267
Supplemental disclosure of noncash transactions:			
Unpaid payables of buildings, equipment, and construction	$	755,612	—
Forgiveness of Paycheck Protection Program loan		3,879,650	—

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.

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 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 without 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.

- Marklund applies the provisions of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606). Topic 606 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. Topic 606 requires 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 for those goods or services.
- 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 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. Cash equivalents held by investment managers are treated as an investing activity in the consolidated statements of cash flows.
- Marklund Children's Home, and Charities 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, 2022 and 2021, 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.

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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 August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13*, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820. Marklund adopted ASU 2018-13 as of July 1, 2020, noting no changes to the consolidated financial statements or footnotes.
- 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-19 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 2020 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 bore interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, had a term of two years, and was unsecured and guaranteed by the SBA. The principal amount of the PPP Loan was subject to forgiveness under the PPP upon Marklund's request to the extent that the PPP Loan proceeds were used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by Marklund. On August 23, 2021, Marklund received approval for forgiveness of the PPP Loan. Marklund recognized the entire amount as other revenue in the consolidated statements of operations and changes in net assets without donor restrictions in 2022.

For the periods ended June 30, 2022 and 2021, Marklund received $283,999 and $497,075, respectively, in general distributions under the CARES Act. These funds were not subject to repayment, provided Marklund was able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received had been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments were accounted for as government grants and are recognized on a systematic and rational basis as other income once there was reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on analysis of the compliance and reporting requirements of the CARES Act and the impact of the pandemic on operating results through June 30, 2022 and 2021, Marklund has recorded $283,999 and $497,075, respectively, as other revenue in the consolidated statements of operations and changes in net assets without donor restrictions. Marklund also received $289,498 from the State of Illinois Healthcare and Family Services funds in 2022. These funds have been recognized as other revenue on the June 30, 2022 consolidated statements of operations and changes in net assets without donor restrictions.

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.

(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, 2022 and 2021 approximated $3,660,809 and $2,641,567, respectively.

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(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, 2022 and 2021 approximated $24,953,890 and $23,889,297, 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 2022 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 $1,269,750 and $1,232,899 as an operating expense in the accompanying 2022 and 2021 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, 2022 and 2021 by funding source:

	2022	2021
Medicaid	98 %	99 %
DHS	2	1
	100 %	100 %

A summary of Marklund's funding source utilization percentages based on resident service revenue for the years ended June 30, 2022 and 2021 is as follows:

	2022	2021
Medicaid	95 %	95 %
DHS	4	4
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, 2022 and 2021 follows:

	2022	2021
Land	$ 5,099,517	5,199,517
Land improvements	3,948,418	3,924,338
Buildings and improvements	38,066,731	37,582,065
Furniture and equipment	7,984,169	7,610,426
	55,098,835	54,316,346
Less accumulated depreciation	(31,011,152)	(28,606,705)
Construction in progress	2,445,769	486,661
	$ 26,533,452	26,196,302

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, 2022, there were $9,199,407 in outstanding contractual commitments related to various capital projects.

(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 3.25% for 2022 and

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2021. Amortization of pledge discounts is included in net assets with donor restrictions. The following are pledges receivable as of June 30, 2022 and 2021:

		2022	2021
Pledges receivable before unamortized discount and allowance for uncollectible pledges	$	675,734	1,236,359
Less unamortized discount		67,306	81,526
Subtotal		608,428	1,154,833
Less allowance for uncollectible pledges		15,210	34,645
Net pledges receivable	$	593,218	1,120,188
Amounts due in:			
Less than one year	$	378,561	468,486
One to five years		214,657	651,702
Total	$	593,218	1,120,188

(8) Assets Whose Use is Limited or Restricted, Pledges Receivable, and Investments

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, pledges receivable, and investments in the accompanying consolidated balance sheets, at June 30, 2022 and 2021 are as follows:

		2022	2021
Cash equivalents	$	8,817,084	6,650,921
Pledges receivable		593,218	1,120,188
Equity securities and mutual funds		14,735,028	15,919,140
Fixed-income mutual funds		6,759,452	3,678,180
	$	30,904,782	27,368,429

The composition of investment return on Marklund's investment portfolio for the years ended June 30, 2022 and 2021 is as follows:

		2022	2021
Interest and dividend income	$	1,031,699	447,258
Net realized gains on sale of investments		46,443	657,038
Change in net unrealized gains and losses on trading securities		(3,985,767)	2,998,587
Investment management fees		(106,438)	(76,202)
Investment return, net	$	(3,014,063)	4,026,681

(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, receivables, 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, and fixed-income mutual funds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.

(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, 2022:

		Fair value	Fair value measurements at June 30 using		
			Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$	508,538	508,538	—	—
Assets whose use is limited or restricted, excluding pledges receivable of $593,218:					
Cash equivalents	$	8,817,084	8,817,084	—	—
Equity mutual funds		14,735,028	14,735,028	—	—
Fixed-income mutual funds		6,759,452	6,759,452	—	—
	$	30,311,564	30,311,564	—	—

The following table presents Marklund's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2021:

		Fair value	Fair value measurements at June 30 using		
			Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$	5,364,970	5,364,970	—	—
Assets whose use is limited or restricted, excluding pledges receivable of $1,120,188:					
Cash equivalents	$	6,650,921	6,650,921	—	—
Equity mutual funds		15,919,140	15,919,140	—	—
Fixed-income mutual funds		3,678,180	3,678,180	—	—
	$	26,248,241	26,248,241	—	—

(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, 2022 and 2021, there were no transfers into or out of Level 1, 2, or 3.

(10) Notes Payable

Marklund had outstanding notes payable at June 30, 2022 consisting of the following:

		2022	2021
Construction loan payable, issued August 20, 2019, bearing interest at a rate of 2.50% at June 30, 2022 and 2021, respectively, with interest paid monthly	$	2,552,820	3,890,121
Total notes payable		2,552,820	3,890,121
Less current maturities of notes payable		(383,069)	(383,069)
Notes payable, net of current portion	$	2,169,751	3,507,052

On August 20, 2019, Marklund entered into a $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 loan through the original loan maturity date of August 20, 2029.

At June 30, 2022, scheduled principal repayments on the notes payable were as follows:

		Amount
Fiscal year ending:		
2023	$	383,069
2024		383,069
2025		383,069
2026		383,069
2027		383,069
Thereafter		637,475
Total	$	2,552,820

(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 2022 and 2021 were 100% of each dollar the participant contributes, up to a maximum of 5% of eligible compensation for 2022 and 2021. Employer-matching contributions to the Plan were $855,572 and $773,459 in 2022 and 2021, 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, 2022 and 2021 consisted of the following:

	2022	2021
Net assets:		
Without donor restrictions:		
Designated by the board:		
Developmentally disabled children fund	$ 1,000,000	1,000,000
Board-restricted endowment	3,162,741	3,077,691
Unrestricted endowment income and realized gains	7,278,365	9,702,098
Undesignated	36,185,727	29,052,374
Total net assets without donor restrictions	47,626,833	42,832,163
With donor restrictions		
Donor-restricted endowments	7,747,244	7,630,694
Purpose restricted – capital campaign	577,878	1,224,080
Purpose restricted – restricted programs	613,753	892,573
Total net assets with donor restrictions	8,938,875	9,747,347
Total net assets	$ 56,565,708	52,579,510

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

		2022	2021
Capital campaign	$	1,600,998	2,110,113
Restricted programs		41,854	32,381
	$	1,642,852	2,142,494

(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, 2022 or 2021.

(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 2022, Marklund had the following activities related to endowment net assets:

		Board-designated income	Donor-restricted endowmen funds	Total
Endowment net assets, July 1, 2021	$	12,779,789	7,630,694	20,410,483
Investment return		(2,423,733)	—	(2,423,733)
Contributions		85,050	116,550	201,600
Endowment net assets, June 30, 2022	$	10,441,106	7,747,244	18,188,350

During 2021, Marklund had the following activities related to endowment net assets:

		Board-designated income	Donor-restricted endowment funds	Total
Endowment net assets, July 1, 2020	$	6,680,107	7,617,119	14,297,226
Investment return		4,021,991	—	4,021,991
Contributions		2,077,691	13,575	2,091,266
Endowment net assets, June 30, 2021	$	12,779,789	7,630,694	20,410,483

(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, with a maturity date of August 20, 2023, 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 PRIME rate for the monthly period plus 1.50% with a floor of 3.25% at June 30, 2022. At June 30, 2022, 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, 2022 and 2021 are as follows:

	Program activities			Supporting activities			
	Residential	Non residential	Total program activities	General and admini-strative	Fund-raising	Total supporting activities	Total
Salaries and wages	$ 12,541,263	7,722,134	20,263,397	1,881,807	810,463	2,692,270	22,955,667
Employee benefits	3,282,168	1,997,714	5,279,882	704,250	215,909	920,159	6,200,041
Consulting	749,472	4,561	754,033	—	—	—	754,033
Medical supplies	1,064,960	63,901	1,128,861	2,747	—	2,747	1,131,608
Food and dietary	557,756	6,715	564,471	725	—	725	565,196
Rent, utilities, and occupancy	519,607	453,509	973,116	57,714	29,667	87,381	1,060,497
Depreciation	1,083,910	1,483,487	2,567,397	213,262	—	213,262	2,780,659
Illinois Medicaid program assessment	1,269,750	—	1,269,750	—	—	—	1,269,750
Other	598,673	368,871	967,544	733,921	246,453	980,374	1,947,918
Total 2022 expenses	$ 21,667,559	12,100,892	33,768,451	3,594,426	1,302,492	4,896,918	38,665,369

	Program activities			Supporting activities			
	Residential	Non residential	Total program activities	General and admini-strative	Fund-raising	Total supporting activities	Total
Salaries and wages	$ 12,218,858	6,752,730	18,971,588	1,806,575	837,512	2,644,087	21,615,675
Employee benefits	3,258,390	1,763,157	5,021,547	673,232	232,378	905,610	5,927,157
Consulting	419,493	3,163	422,656	—	—	—	422,656
Medical supplies	856,775	67,855	924,630	2,254	—	2,254	926,884
Food and dietary	487,478	6,278	493,756	691	—	691	494,447
Rent, utilities, and occupancy	511,763	466,573	978,336	54,728	29,430	84,158	1,062,494
Depreciation	1,135,359	1,145,795	2,281,154	182,593	—	182,593	2,463,747
Illinois Medicaid program assessment	1,232,899	—	1,232,899	—	—	—	1,232,899
Other	644,045	414,423	1,058,468	696,813	189,293	886,106	1,944,574
Total 2021 expenses	$ 20,765,060	10,619,974	31,385,034	3,416,886	1,288,613	4,705,499	36,090,533

(Continued)

(16) Financial Assets and Liquidity Resources

As of June 30, 2022 and 2021, 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:

		2022	2021
Cash and cash equivalents	$	508,538	5,364,970
Receivables		6,195,930	4,831,175
Pledges receivable – current		378,561	468,486
Assets whose use is limited or restricted		25,303,964	26,248,241
Investments		5,007,600	—
Less donor-restricted net assets		(8,938,875)	(9,747,347)
Less board-restricted endowment		(3,162,741)	(3,077,691)
Less board-designated developmentally disabled children's fund		(1,000,000)	(1,000,000)
Total financial assets available to meet cash needs for general expenditures within one year	$	24,292,977	23,087,834

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, 2022.

(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, 2022 through November 18, 2022, which was the date the consolidated financial statements were issued and other than disclosed in note 2, there were no other items to disclose.