MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Marklund Children's Home:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Marklund Children's Home, d/b/a Marklund, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

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, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 23, 2015

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Balance Sheets

June 30, 2015 and 2014

Assets		2015	2014
Current assets:			
Cash and cash equivalents	$	708,174	1,563,117
Receivables:			
Resident accounts, less allowance for doubtful accounts of approximately $234,000 in 2015 and $221,500 in 2014		2,297,807	1,951,400
Other		466,950	423,173
Inventories		87,943	46,832
Prepaid expenses		270,947	122,606
Other assets		692,889	691,633
Total current assets		4,524,710	4,798,761
Assets whose use is limited or restricted		15,923,498	16,885,401
Land, buildings, and equipment, net of accumulated depreciation		15,274,202	14,651,644
Total assets	$	35,722,410	36,335,806
Liabilities and Net Assets			
Current liabilities:			
Line-of-credit payable	$	—	250,000
Accounts payable		513,048	354,829
Accrued liabilities:			
Compensation and related payables		541,551	748,166
Other		1,704,934	2,027,880
Total current liabilities		2,759,533	3,380,875
Net assets:			
Unrestricted		23,099,053	22,350,319
Temporarily restricted		3,377,363	4,625,280
Permanently restricted		6,486,461	5,979,332
Total net assets		32,962,877	32,954,931
Total liabilities and net assets	$	35,722,410	36,335,806

See accompanying notes to consolidated financial statements.

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Statements of Operations

Years ended June 30, 2015 and 2014

		2015	2014
Revenue and support:			
Net resident service revenue	$	10,093,807	10,104,765
School services		2,962,927	2,390,418
Developmental training		2,196,356	2,181,527
Other revenue		475,420	369,030
Total revenue and support		15,728,510	15,045,740
Expenses:			
Salaries and wages		10,846,569	10,337,599
Employee benefits		2,557,198	2,279,497
Consulting		323,197	229,709
Medical supplies		443,726	411,901
Food and dietary		330,838	338,691
Rent, utilities, and occupancy		738,170	719,539
Depreciation		1,480,342	1,640,310
Illinois Medicaid Program Assessment		605,536	602,839
Other		1,353,993	1,284,703
Total expenses		18,679,569	17,844,788
Revenue and support deficient of expenses		(2,951,059)	(2,799,048)
Nonoperating gains (losses):			
Unrestricted gifts and bequests		1,737,274	1,413,837
Investment income		847,218	460,396
Other		1,605	327
Change in net unrealized gains and losses on trading securities		(872,014)	635,270
Loss on disposal of building and equipment		(21,109)	(69,473)
Total nonoperating gains, net		1,692,974	2,440,357
Revenue, support, and gains deficient of expenses and losses		(1,258,085)	(358,691)
Other changes in unrestricted net assets:			
Net assets released from restriction used for purchase of property and equipment		2,006,819	364,502
Increase in unrestricted net assets	$	748,734	5,811

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, 2015 and 2014

		2015	2014
Unrestricted net assets:			
Revenue, support, and gains deficient of expenses and losses	$	(1,258,085)	(358,691)
Net assets released from restriction used for purchase of property and equipment		2,006,819	364,502
Increase in unrestricted net assets		748,734	5,811
Temporarily restricted net assets:			
Contributions for specific purposes		1,061,959	4,435,357
Net assets released from restriction for operations		(303,057)	(225,431)
Net assets released from restriction used for purchase of property and equipment		(2,006,819)	(364,502)
(Decrease) increase in temporarily restricted net assets		(1,247,917)	3,845,424
Permanently restricted net assets:			
Contributions to be held in perpetuity		507,129	56,124
Change in net assets		7,946	3,907,359
Net assets at beginning of year		32,954,931	29,047,572
Net assets at end of year	$	32,962,877	32,954,931

See accompanying notes to consolidated financial statements.

MARKLUND CHILDREN'S HOME
D/B/A MARKLUND

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

		2015	2014
Cash flows from operating activities and gains:			
Change in net assets	$	7,946	3,907,359
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities and gains:			
Depreciation		1,480,342	1,640,310
Provision for uncollectible accounts		12,500	12,500
Loss on disposal of building and equipment		21,109	69,473
Change in net unrealized gains and losses on trading securities		872,014	(635,270)
Realized gains on investments, net		(430,470)	(182,769)
Restricted contributions		(1,569,088)	(4,491,481)
Net assets released from restrictions and used for operations		303,057	225,431
Changes in assets and liabilities:			
Receivables		(402,684)	1,112,661
Inventories		(41,111)	(10,977)
Prepaid expenses		(148,341)	(26,451)
Other assets		(1,256)	(38,568)
Accounts payable		158,219	89,379
Accrued liabilities		(529,561)	(626,283)
Net cash (used in) provided by operating activities and gains		(267,324)	1,045,314
Cash flows from investing activities:			
Purchases of assets limited or restricted as to use		(5,474,907)	(8,222,714)
Proceeds from sale or maturities of assets limited or restricted as to use		5,995,266	3,611,860
Acquisition of land, buildings, and equipment		(2,124,009)	(360,886)
Net cash used in investing activities		(1,603,650)	(4,971,740)
Cash flows from financing activities:			
Proceeds from draws on lines of credit		3,335,000	750,000
Payments on line of credit		(3,585,000)	(500,000)
Net assets released from restrictions and used for operations		(303,057)	(225,431)
Restricted contributions		1,569,088	4,491,481
Net cash provided by financing activities		1,016,031	4,516,050
Net change in cash and cash equivalents		(854,943)	589,624
Cash and cash equivalents at beginning of year		1,563,117	973,493
Cash and cash equivalents at end of year	$	708,174	1,563,117
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	18,548	3,188

See accompanying notes to consolidated financial statements.

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

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

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 include revenue, support, and gains deficient of expenses and losses. Transactions deemed to be ongoing, major, or central to the provision of client services are reported as revenue and expenses. Transactions incidental to the provision of client services are reported as gains and losses. Changes in unrestricted net assets that are excluded from revenue, support, and gains deficient of expenses and losses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that, by donor restrictions, were to be used for the purpose of acquiring such assets).
- Net resident service revenue is recognized as services are provided to residents. School services and developmental training revenues are recognized as day services are provided to students.
- Temporarily restricted net assets are those whose use by Marklund has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Marklund in perpetuity. Temporarily restricted net assets represent amounts primarily restricted by donors or grantors for future capital acquisitions and facilities development. Permanently restricted net assets represent investments to be held in perpetuity, the income from which is unrestricted and expendable to support operations.

  In 2014, Marklund received a donation of \$3,570,000, with \$3,520,000 for the purpose of expanding the nonpublic day school through construction of a \$4,200,000 building focused on students with autism spectrum disorder and \$50,000 used to establish an endowment fund for the school. The new building will be located adjacent to the current school building and will include six classrooms, therapy rooms, a multipurpose room, offices, observation areas, and mock apartment. Construction is scheduled to be completed in November 2015.

  Marklund applies Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. ASC Subtopic 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization and requires additional disclosure about endowment funds (both donor-restricted and board-designated) (note 11).

- Unconditional promises to give cash and other assets are reported at fair value at the date the promises are received. Unrestricted contributions and bequests are reported as nonoperating gains. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction. Net assets released from restriction for operating purposes are included with other revenue. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.
- Cash and cash equivalents include demand deposits and investments in highly liquid instruments with maturities of three months or less at date of purchase.
- Marklund Children's Home and Charities are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.
- Assets whose use is limited or restricted include: assets set aside by the board of directors for internal endowment development funding and the depreciation reserve fund over which the board of directors retains control and may, at its discretion, subsequently use for other purposes; and all donor-restricted investments.
- Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. In 2015, several pieces of equipment were disposed of and a building was demolished in 2014 with the remaining net book value written off, resulting in losses of $21,109 and $69,473, in 2015 and 2014, respectively, which are included in net nonoperating gains (losses) in the accompanying consolidated statement of operations.
- Investments in equity securities and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment return, including interest, dividends, realized gains and losses on investments, and unrealized gains and losses on trading securities are reported as nonoperating gains to the extent not restricted by donors.
- Marklund capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. There were no major projects exceeding one year at June 30, 2015 or 2014.

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- The net proceeds received from the operation of Marklund's resale and thrift shop are used for general operations in the care of residents. Net resale shop proceeds are included with nonoperating gains – unrestricted gifts and bequests.
- 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.
- 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.

(2) Charity Care

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

In accordance with Accounting Standards Update No. 2010-23, *Measuring Charity Care for Disclosure*, Marklund accounts for charity care as the difference between the cost of caring for residents assisted by Medicaid and the amounts reimbursed for these residents as charity care. Since Marklund does not expect payment for charity care services, charges for charity care are not included in revenue. In addition, Marklund reports the cost of services provided to the community as charity care. Charity care attributable to Medicaid subsidies and community service activities for the years ended June 30, 2015 and 2014 approximated $1,579,553 and $1,646,395, respectively.

(3) Net Resident Service Revenue

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

Healthcare Family Services

Marklund participates as a provider of services to disabled children under a Healthcare Family Services (HFS) Medicaid program. Net resident service revenue and developmental training revenue under the HFS Medicaid program for the years ended June 30, 2015 and 2014 approximated $11,278,715 and $11,335,387, respectively. This revenue is based on all-inclusive per diem rates for basic care effective for a period of 12 months. The per diem rates are subject to retroactive adjustment. In the opinion of management, adjustments, if any, proposed by the HFS would not be material to the financial position or results of operations of Marklund. Funding from the HFS may be subject to periodic adjustment as well as to changes in existing payment levels and rates, based on the amount of funding available to HFS. Marklund has continued to experience payment delays in 2015 under the Medicaid program due to timing of funding available to HFS.

On December 4, 2008, the State of Illinois (the State) approved an assessment program to assist in the financing of its Medicaid program, originally through June 30, 2013, which was extended by the State through June 30, 2018. Pursuant to this program, providers within the State are required to remit payment to the State of Illinois Medicaid program under an assessment formula approved by the Centers for Medicare & Medicaid Services. Marklund has included its annual assessment of $605,536 and $602,839 as an operating expense in the accompanying 2015 and 2014 consolidated statements of operations, respectively.

(4) Concentration of Credit Risk

Marklund provides a comprehensive range of custodial care, educational, and developmental training services to severely disabled children and young adults. Marklund grants credit to these individuals and their families and generally does not require collateral or other security in extending credit to them; however, it routinely obtains assignment of (or is otherwise entitled to receive) these individuals' benefits payable under their programs, plans, or policies (e.g., Medicaid and Department of Human Services (DHS)). The following table summarizes the composition of resident accounts receivable at June 30, 2015 and 2014 by funding source:

	2015	2014
Medicaid	99%	99%
DHS	1	1
	100%	100%

A summary of Marklund's funding source utilization percentages based upon net resident service revenue for the years ended June 30, 2015 and 2014 follows:

	2015	2014
Medicaid	90%	91%
DHS	6	6
Other	4	3
	100%	100%

(5) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost or, if donated, at fair value at date of donation, less accumulated depreciation and amortization. A summary of land, buildings, and equipment at June 30, 2015 and 2014 follows:

	2015	2014
Land	$ 4,414,395	4,414,395
Land improvements	2,130,869	1,986,465
Buildings and improvements	23,376,619	21,823,879
Furniture and equipment	5,458,710	5,067,270
	35,380,593	33,292,009
Less accumulated depreciation	20,106,391	18,640,365
	$ 15,274,202	14,651,644

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, 2015, there were $2,839,766 of contractual commitments outstanding related to the construction project of the new day school building, which is scheduled to be completed in November 2015. There were no contractual commitments outstanding at June 30, 2014.

(6) Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on pledge amounts is computed using interest rates applicable to the years in which the promises are received, which is assumed to be 6% for 2015 and 2014. Amortization of pledge discounts is included in temporarily and permanently restricted contributions. Included in assets whose use is limited or restricted are the following pledges receivable as of June 30, 2015 and 2014:

		2015	2014
Pledges receivable before unamortized discount and allowance for uncollectible pledges	$	183,750	261,250
Less unamortized discount		16,348	11,732
Subtotal		167,402	249,518
Less allowance for uncollectible pledges		2,779	4,067
Net pledges receivable	$	164,623	245,451
Amounts due in:			
Less than one year	$	116,731	123,780
One to five years		47,892	121,670
Total	$	164,623	245,450

(7) Assets Whose Use Is Limited or Restricted

Marklund reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices. A summary of the composition of Marklund's investment portfolio, all of which is reported as assets whose use is limited or restricted, at June 30, 2015 and 2014 follows:

		2015	2014
Cash and cash equivalents	$	5,700,753	6,825,363
Pledges receivable		164,623	245,450
Equity securities and mutual funds		7,431,988	7,451,329
Fixed income mutual funds		2,626,134	2,363,259
	$	15,923,498	16,885,401

The composition of investment return on Marklund's investment portfolio for the years ended June 30, 2015 and 2014 follows:

		2015	2014
Interest and dividend income, net of fees and expenses	$	416,748	277,627
Net realized gains on sale of investments		430,470	182,769
Change in net unrealized gains and losses on trading securities		(872,014)	635,270
Investment return	$	(24,796)	1,095,666

Investment returns included in the accompanying consolidated statements of operations for the years ended June 30, 2015 and 2014 are as follows:

		2015	2014
Nonoperating gains – investment income	$	847,218	460,396
Change in net unrealized gains and losses on trading securities		(872,014)	635,270
	$	(24,796)	1,095,666

(8) Fair Value Measurement

(a) Fair Value of Financial Instruments

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

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, accounts payable, and accrued liabilities.
- Fair values of Marklund's investments held as assets whose use is limited or restricted are estimated based on prices provided by its investment managers and its custodian bank except for the carrying value of pledges receivable, which equals fair value. Fair value for cash and cash equivalents, 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, involve unobservable inputs considered to be Level 3 in the fair value hierarchy.

(b) Fair Value Hierarchy

Marklund adopted ASC Subtopic 820-10 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC 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, 2015:

	Fair value	Fair value measurements at June 30 using Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 708,174	708,174	—	—
Assets whose use is limited or restricted excluding pledges receivable of $164,623:				
Cash and cash equivalents	$ 5,700,753	5,700,753	—	—
Domestic equity securities	3,163,386	3,163,386	—	—
International equity securities	2,150,292	2,150,292	—	—
Equity mutual funds	2,118,310	2,118,310	—	—
Fixed income mutual funds	2,626,134	2,626,134	—	—
	$ 15,758,875	15,758,875	—	—

The following table presents Marklund's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2014:

	Fair value	Fair value measurements at June 30 using		
		Level 1	**Level 2**	**Level 3**
Financial assets:				
Cash and cash equivalents	$ 1,563,117	1,563,117	—	—
Assets whose use is limited or restricted excluding pledges receivable of $245,450:				
Cash and cash equivalents	$ 6,825,363	6,825,363	—	—
Domestic equity securities	2,209,192	2,209,192	—	—
International equity securities	2,565,328	2,565,328	—	—
Equity mutual funds	2,676,809	2,676,809	—	—
Fixed income mutual funds	2,363,259	2,363,259	—	—
	$ 16,639,951	16,639,951	—	—

(9) Employee Retirement Plans

Marklund sponsored a profit sharing plan that covered substantially all employees. On August 15, 2013, the Marklund Board of Directors agreed to terminate the plan, participants became fully vested in their accounts, and the termination process was complete by December 31, 2013.

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

- *Contributions* – The Plan is a defined-contribution plan. Effective March 5, 2012, employer contributions to the Plan are made in the form of matching contributions equal to 50% of each dollar the participant contributes up to the first 3% of eligible employee compensation. Employer matching contributions to the Plan were $170,639 and $162,277 in 2015 and 2014, respectively.
- *Eligibility* – All employees are eligible to participate in the Plan. Employees are eligible to receive matching contributions after attaining 2 years of service.
- *Vesting* – Participants are vested immediately in their contributions and employer matching contributions.

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2015 and 2014:

		2015	2014
Capital campaign for autism building	$	2,237,380	3,520,000
Restricted programs		1,139,983	1,105,280
	$	3,377,363	4,625,280

(11) Endowments

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

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

Endowment net assets consist of the following at June 30, 2015:

		Unrestricted	Permanently restricted	Total
Donor-restricted endowment funds	$	3,080,398	6,486,461	9,566,859
Board-designated reserve funds		1,000,000	—	1,000,000
Total endowment net assets	$	4,080,398	6,486,461	10,566,859

Endowment net assets consist of the following at June 30, 2014:

		Unrestricted	Permanently restricted	Total
Donor-restricted endowment funds	$	3,275,060	5,979,332	9,254,392
Board-designated reserve funds		1,000,000	—	1,000,000
Total endowment net assets	$	4,275,060	5,979,332	10,254,392

(Continued)

Changes in the endowment net assets for the year ended June 30, 2015 are as follows:

		Unrestricted	Permanently restricted	Total
Endowment net assets, July 1, 2014	$	4,275,060	5,979,332	10,254,392
Investment return		(52,332)	—	(52,332)
Contributions		—	507,129	507,129
Appropriated expenditures of endowment funds		(142,330)	—	(142,330)
Endowment net assets, June 30, 2015	$	4,080,398	6,486,461	10,566,859

Changes in the endowment net assets for the year ended June 30, 2014 are as follows:

		Unrestricted	Permanently restricted	Total
Endowment net assets, July 1, 2013	$	3,353,125	5,923,208	9,276,333
Investment return		1,078,965	—	1,078,965
Contributions		—	56,124	56,124
Appropriated expenditures of endowment funds		(157,030)	—	(157,030)
Endowment net assets, June 30, 2014	$	4,275,060	5,979,332	10,254,392

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Marklund to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. Subsequent gains restore the fair value of the assets of the endowment fund to the required level. There were no deficiencies as of June 30, 2015 or 2014.

(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.

(12) Operating Leases

Marklund has a lease for its resale and thrift shop. Rental expense under this lease was approximately $96,500 and $96,000 in 2015 and 2014, respectively.

As of June 30, 2015, scheduled annual contractual payments under the operating lease for the term of the lease through May 31, 2018 are as follows:

	Amount
Year ending June 30:	
2016	$ 102,000
2017	102,500
2018	99,000
Total future minimum lease payments	$ 303,500

(13) Commitments and Contingencies

(a) Litigation

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

(b) Line of Credit

Marklund maintains a credit facility agreement with West Suburban Bank (the Bank). The agreement extends a line of credit to Marklund in the principal sum not to exceed $5,000,000 in support of working capital requirements. Interest on the unpaid balance is paid monthly based on a minimum annual rate of 4% or 1% point under the Bank's prime rate. At June 30, 2015, there were no outstanding draws on the line of credit. The agreement expires on November 1, 2015.

Marklund's line of credit is secured by Marklund's unrestricted receivables and real and personal property. Interest expense amounted to $18,548 in 2015 and $3,188 in 2014 and is reported within other expense.

(c) Investment Risk and Uncertainties

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

(14) Functional Expenses

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

	2015	2014
General and administrative	$ 1,328,756	1,247,335
Fund-raising (includes in-kind)	794,028	703,888
Residential services	11,639,563	11,380,646
Nonresidential services – developmental training and school services	4,917,222	4,512,919
	$ 18,679,569	17,844,788

(15) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, Marklund evaluated subsequent events after the consolidated balance sheet date of June 30, 2015 through October 23, 2015, which was the date the financial statements were issued, nothing no events requiring recording or disclosure.