The Allendale Association

Financial Report

June 30, 2018

Contents

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Independent Auditor's Report

To the Board of Trustees
The Allendale Association

Report on the Financial Statements

We have audited the accompanying financial statements of The Allendale Association (Allendale), which comprise the statement of financial position as of June 30, 2018 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Allendale Association as of June 30, 2018 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Allendale Association's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the Board of Trustees
The Allendale Association

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018 on our consideration of The Allendale Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Allendale Association's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 18, 2018

Statement of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 370,799	$ 511,992
Investments	7,599,377	7,154,199
Accounts receivable - Net:		
Trade accounts receivable	2,968,287	3,414,930
Pledges receivable	25,000	25,000
Bond issuance costs - Net	100,259	111,069
Prepaid expenses and other assets:		
Prepaid expenses and other	183,162	166,643
Advances and deposits	23,037	23,287
Property and equipment - Net	12,200,675	13,034,777
Total assets	**$ 23,470,596**	**$ 24,441,897**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued expenses	$ 579,054	$ 659,141
Accrued salaries, wages, and other compensation	979,235	848,746
Accrued liabilities and other:		
Accrued pension cost	1,463,591	1,695,418
Interest rate swap agreements	4,364	98,565
Bond payable	3,269,400	3,717,800
Total liabilities	6,295,644	7,019,670
Net Assets		
Unrestricted:		
Undesignated	9,525,609	10,193,755
Board designated	7,413,545	6,964,507
Total unrestricted	16,939,154	17,158,262
Temporarily restricted	65,155	93,322
Permanently restricted	170,643	170,643
Total net assets	17,174,952	17,422,227
Total liabilities and net assets	**$ 23,470,596**	**$ 24,441,897**

See notes to financial statements.

Statement of Activities

Year Ended June 30, 2018

(with summarized totals for June 30, 2017)

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Government support - Service fees and grants	$ 25,791,843	$ -	$ -	$ 25,791,843	$ 25,649,702
Government support - School lunch program	206,839	-	-	206,839	180,958
Public support - Contributions and special events	899,205	153,299	-	1,052,504	732,311
Service fees - Third party	363,046	-	-	363,046	307,812
Client and family fees	5,461	-	-	5,461	165,513
Program sales	39,860	-	-	39,860	32,355
Net realized and unrealized gain on investments	219,752	(90)	-	219,662	514,754
Investment and dividend income	235,507	763	-	236,270	172,987
Change in value of interest rate swap agreements - Net of periodic settlement payments	94,201	-	-	94,201	152,249
Miscellaneous	3,372	-	-	3,372	1,904
Net assets released from restrictions	182,139	(182,139)	-	-	-
Total support and revenue	28,041,225	(28,167)	-	28,013,058	27,910,545
Expenses					
Program expenses:					
Residential treatment	11,353,724	-	-	11,353,724	11,722,865
North Chicago	1,673,782	-	-	1,673,782	2,020,980
Group Homes	1,389,067	-	-	1,389,067	1,866,550
Benet Lake, Wisconsin	1,651,205	-	-	1,651,205	1,916,443
Family living center	474,465	-	-	474,465	-
Special education	8,072,908	-	-	8,072,908	8,876,670
Foster care	766,873	-	-	766,873	1,002,700
Youth community services	121,117	-	-	121,117	112,412
Outpatient clinic	552,584	-	-	552,584	409,287
Total program expenses	26,055,725	-	-	26,055,725	27,927,907
Support services:					
Management and general	2,367,538	-	-	2,367,538	2,450,145
Fundraising	206,449	-	-	206,449	411,773
Total support services	2,573,987	-	-	2,573,987	2,861,918
Total expenses	28,629,712	-	-	28,629,712	30,789,825
Decrease in Net Assets - Before pension-related changes other than net periodic benefit cost	(588,487)	(28,167)	-	(616,654)	(2,879,280)
Pension-related Changes Other Than Net Periodic Benefit Cost	369,379	-	-	369,379	965,668
Decrease in Net Assets	(219,108)	(28,167)	-	(247,275)	(1,913,612)
Net Assets - Beginning of year	17,158,262	93,322	170,643	17,422,227	19,335,839
Net Assets - End of year	**$ 16,939,154**	**$ 65,155**	**$ 170,643**	**$ 17,174,952**	**$ 17,422,227**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2018

(with summarized totals for the year ended June 30, 2017)

	Program Services										Support Services			Total	
	Residential Treatment	North Chicago	Group Homes	Benet Lake	Family Living Center	Special Education	Foster Care	Youth Community Services	Outpatient Clinic	Total	Management and General	Fundraising	Total	2018	2017
Salaries	$ 6,941,398	$ 974,973	$ 836,523	$ 898,267	$ 304,106	$ 4,803,382	$ 289,250	$ 65,692	$ 310,113	$15,423,704	$ 1,320,053	$ 135,637	$ 1,455,690	$ 16,879,394	$ 17,564,708
Employee benefits	1,135,805	177,948	150,794	161,814	45,887	937,585	57,215	13,185	62,226	2,742,459	277,965	27,333	305,298	3,047,757	3,914,886
Payroll taxes	512,343	71,987	61,762	66,320	22,441	354,733	21,363	4,852	22,905	1,138,706	97,513	10,018	107,531	1,246,237	1,303,354
Total salaries and related expenses	8,589,546	1,224,908	1,049,079	1,126,401	372,434	6,095,700	367,828	83,729	395,244	19,304,869	1,695,531	172,988	1,868,519	21,173,388	22,782,948
Professional fees and contract service payments	468,219	54,162	35,757	46,707	60,518	214,856	7,672	14,979	50,328	953,198	293,260	-	293,260	1,246,458	1,197,852
Supplies	689,816	73,074	45,150	74,253	13,200	271,576	22,430	4,276	5,740	1,199,515	89,990	8,647	98,637	1,298,152	1,304,664
Telecommunications	80,429	6,686	9,878	12,107	71	40,550	6,345	1,454	5,394	162,914	6,585	1,530	8,115	171,029	187,080
Postage and shipping	16,468	3,178	2,300	3,016	347	11,764	751	173	196	38,193	4,204	2,759	6,963	45,156	58,752
Occupancy	326,913	42,562	41,248	172,853	5,421	507,155	25,283	6,036	57,019	1,184,490	17,303	2,928	20,231	1,204,721	1,374,254
Equipment repairs, maintenance, and rentals	68,796	6,617	7,101	16,205	576	36,023	1,731	309	515	137,873	-	-	-	137,873	134,407
Insurance premiums	211,181	40,754	29,491	38,679	4,446	146,122	9,633	2,223	2,519	485,048	28,603	1,927	30,530	515,578	445,491
Outside printing, artwork, etc.	8,546	1,220	883	1,158	133	5,283	403	209	237	18,072	-	9,641	9,641	27,713	23,753
Local transportation	97,428	23,802	14,630	14,971	3,713	49,541	25,655	1,209	4,072	235,021	7,587	289	7,876	242,897	272,253
Training, conferences, and meetings	12,017	1,442	1,044	1,976	-	1,311	-	-	70	17,860	13,368	-	13,368	31,228	39,632
Subscriptions and reference publications	640	123	89	117	279	589	29	7	152	2,025	490	137	627	2,652	2,126
Client-specific assistance	247,929	40,150	71,106	33,736	9,665	71,384	263,647	15	15	737,647	-	-	-	737,647	932,679
Membership and accreditation dues	23,195	4,093	3,058	7,484	446	27,908	967	223	253	67,627	923	130	1,053	68,680	59,876
Staff recruitment and marketing advertising	22,864	4,325	3,130	4,106	21	44,526	13,225	3,017	3,419	98,633	1,958	-	1,958	100,591	89,132
Interest expense and financing fees	80,970	24,931	2,796	3,119	156	58,985	4,737	958	11,105	187,757	4,448	944	5,392	193,149	206,770
Bad debt expense	1,355	-	-	-	-	3,144	-	-	1,095	5,594	-	-	-	5,594	133,723
Miscellaneous, primarily special event fees	5,500	1,914	248	12,719	466	7,949	3,040	13	165	32,014	(6,731)	4,287	(2,444)	29,570	123,819
Depreciation	401,912	119,841	72,079	81,598	2,573	478,542	13,497	2,287	15,046	1,187,375	210,019	242	210,261	1,397,636	1,420,614
Total functional expenses	**$11,353,724**	**$ 1,673,782**	**$ 1,389,067**	**$1,651,205**	**$ 474,465**	**$ 8,072,908**	**$ 766,873**	**$ 121,117**	**$ 552,584**	**$26,055,725**	**$ 2,367,538**	**$ 206,449**	**$ 2,573,987**	**$ 28,629,712**	**$ 30,789,825**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Decrease in net assets	$ (247,275)	$ (1,913,612)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents from operating activities:		
Depreciation	1,397,636	1,420,614
Bond cost amortization	10,810	10,809
Net realized and unrealized gains on investments	(219,662)	(514,754)
Change in fair value of interest rate swap agreements	(94,201)	(152,249)
Bad debt expense	5,594	133,723
Changes in operating assets and liabilities which provided (used) cash and cash equivalents:		
Accounts receivable	441,049	(520,137)
Pledges receivable	-	123,073
Prepaid expenses and other	(16,519)	(22,579)
Advances and deposits	250	28,115
Accounts payable and other accrued expenses	191,992	62,635
Accrued pension cost	(231,827)	(628,246)
Net cash and cash equivalents provided by (used in) operating activities	1,237,847	(1,972,608)
Cash Flows from Investing Activities		
Proceeds from sales of investments	2,702,255	6,614,630
Purchases of investments	(2,927,771)	(6,772,037)
Capital expenditures	(705,124)	(495,179)
Net cash and cash equivalents used in investing activities	(930,640)	(652,586)
Cash Flows Used in Financing Activities - Payments on bond	(448,400)	(428,600)
Net Decrease in Cash and Cash Equivalents	(141,193)	(3,053,794)
Cash and Cash Equivalents - Beginning of year	511,992	3,565,786
Cash and Cash Equivalents - End of year	**$ 370,799**	**$ 511,992**
Supplemental Disclosure of Cash Flow Information		
Cash payments of interest	$ 129,742	$ 145,468
Fixed asset invoices included in accounts payable	141,590	80,555

See notes to financial statements.

Note 1 - Nature of Business

The Allendale Association (Allendale) is a private, not-for-profit organization dedicated to excellence and innovation in the care, treatment, education, and advocacy for children and youth with serious emotional, mental health, and behavioral challenges. Allendale is supported financially by government funding (primarily from the State of Illinois), program services from third parties, and private contributions. Founded in 1897, Allendale serves emotionally troubled youths and their families in northern Illinois and southern Wisconsin through residential treatment, community-based group homes, day treatment education, foster care, community-based mentoring, and an outpatient clinic.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of Allendale have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Classification of Net Assets

Net assets are classified based on the presence or absence of donor-imposed restrictions.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired or been fulfilled.

Temporarily restricted net assets consist of contributions received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements.

Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity.

Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

Investments

Investment securities are recorded at fair value in the statement of financial position. Gains and losses, both realized and unrealized, are recorded in the statement of activities.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Generally, items with a useful life of one year or more and value of more than $500 are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is allocated between program and support services in the statements of activities. Costs of maintenance and repairs are charged to expense when incurred.

Bond Issuance Costs

Bond issuance costs are amortized using the straight-line method over the term of the related bond.

Note 2 - Significant Accounting Policies (Continued)

Revenue and Public Support

Fees for services are recognized as revenue as the services are performed. Grant revenue and public support are recorded in the period to which they apply, except for contributions. Contributions received, including unconditional promises and noncash assets, are recognized as revenue when the donor's commitment is received. All contributions are recorded at their fair value. Conditional promises are recorded when donor stipulations are substantially met. Contributions 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 stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. This includes donor-restricted contributions whose restrictions are met within the same year as received. Permanently restricted endowment net assets have been restricted by donors to be maintained in perpetuity.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as pledges receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Allendale provides an allowance for estimated uncollectible contributions based on its historical experience of the relationship between actual bad debts and net amounts pledged.

Accounts Receivable

Accounts receivable are carried at the original billing amount. The valuation of accounts receivable is based upon management's estimate of the collectibility of such receivables. Management reviews trade accounts receivable on a consistent basis and follows up with those customers that are delinquent. Management records a specific reserve when the collectibility of a receivable balance is uncertain. Management also records a general billing reserve based on historical billing adjustments, which may occur for a variety of reasons.

Contributed Materials and Services

No amounts have been reflected in the financial statements for donated volunteers' time because the contributed services do not meet the criteria for recognition, as defined by accounting principles generally accepted in the United States of America. However, a substantial number of volunteers have donated significant amounts of time toward the activities of Allendale. Donated materials, if significant in amount, are included in public support at fair value. It is the policy of Allendale to record gifts of long-lived assets without stipulation as unrestricted support.

Concentrations of Credit Risk

Allendale's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, which is placed with high-quality financial institutions. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. Management believes that credit risk related to these deposits is minimal.

Cash Equivalents

For the purpose of the statement of cash flows, Allendale considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Allendale maintains its cash and cash equivalents primarily in First American Bank and Fifth Third Bank accounts.

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a functional basis in the statement of activities. Allendale uses a cost allocation formula to charge indirect costs to programs. The formula is the result of a number of cost allocation procedures based on the applicable functional expense. Factors used for allocating costs include full-time equivalent staff, square footage of space utilized, and number of telephones utilized. Certain expenses included in program services include these cost allocation procedures. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different amounts.

Income Taxes

Allendale is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Use of Estimates

The preparation of financial statements in conformity with 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including December 18, 2018, which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for Allendale's year ending June 30, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. Allendale will most likely adopt the cumulative catch-up transition method if implementation of the standard does not result in a significant adjustment. Allendale's primary revenue streams are not expected to be significantly impacted by the ASU.

Note 2 - Significant Accounting Policies (Continued)

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for Allendale's year ending June 30, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on Allendale's financial statements as a result of the leases for various locations which are currently classified as operating leases. Upon adoption, Allendale will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by Allendale, including required disclosures about the liquidity and availability of resources. The new standard is effective for Allendale's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. Allendale expects there to be a change in net assets descriptions, enhanced disclosures related to liquidity and availability of resources, and changes to functional allocation of expenses.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for Allendale's year ending June 30, 2019 and will be applied on a modified prospective basis. Allendale does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of individual grants and contributions.

Note 3 - Accounts Receivable

The following is the detail of trade accounts receivable:

	2018	2017
Program service fees and grants - Net of billing reserve	$ 3,006,306	$ 3,449,446
Outpatient clinic	39,195	43,468
Other	4,440	11,125
Less allowance for doubtful accounts	81,654	89,109
Total accounts receivable	$ 2,968,287	$ 3,414,930

Note 4 - Pledges Receivable

Allendale's pledges receivable as of June 30, 2018 and 2017 are $25,000, which consists of a bequest that will be paid to Allendale upon the donor's death. No allowance for uncollectible pledges was recorded as of June 30, 2018 and 2017.

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that Allendale has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

Allendale does not currently utilize any Level 3 inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Allendale’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following tables present information about Allendale’s assets and liabilities measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by Allendale to determine those fair values.

Note 5 - Fair Value Measurements (Continued)

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at June 30, 2018
Assets					
Marketable equity funds:					
U.S. large cap	$ 418,476	$ -	$ -	$ -	$ 418,476
U.S. mid cap	153,639	-	-	-	153,639
International	366,243	-	-	-	366,243
Real estate fund	111,702	-	-	-	111,702
Mutual funds	3,469,026	-	-	-	3,469,026
U.S. Treasury securities	-	610,197	-	-	610,197
Hedge funds	-	-	-	696,744	696,744
Fixed-income funds:					
Corporate bonds	-	1,227,352	-	-	1,227,352
International bonds	-	182,007	-	-	182,007
Government agency bonds	-	125,291	-	-	125,291
Total assets	$ 4,519,086	$ 2,144,847	$ -	$ 696,744	$ 7,360,677
Liabilities - Interest rate swap	$ -	$ 4,364	$ -	$ -	$ 4,364

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at June 30, 2017
Assets					
Marketable equity funds:					
U.S. large cap	$ 305,752	$ -	$ -	$ -	$ 305,752
U.S. mid cap	169,435	-	-	-	169,435
International	135,499	-	-	-	135,499
Real estate fund	103,115	-	-	-	103,115
Mutual funds	4,094,295	-	-	-	4,094,295
U.S. Treasury securities	-	346,799	-	-	346,799
Hedge funds	-	-	-	638,757	638,757
Fixed-income funds:					
Corporate bonds	-	716,778	-	-	716,778
International bonds	-	211,628	-	-	211,628
Government agency bonds	-	159,751	-	-	159,751
Total assets	$ 4,808,096	$ 1,434,956	$ -	$ 638,757	$ 6,881,809
Liabilities - Interest rate swap	$ -	$ 98,565	$ -	$ -	$ 98,565

Not included in the above tables is $238,700 and $272,390 of cash held in the investment account at June 30, 2018 and 2017, respectively.

Allendale's policy is to recognize transfers in and out of Level 1, 2, and 3 fair value classifications as of the beginning of the fiscal year of the change in circumstances that caused the transfer. There were no transfers during the years ended June 30, 2018 and 2017.

Note 5 - Fair Value Measurements (Continued)

Level 1 Inputs

Fair values for Allendale's marketable equity funds and mutual funds were based on quoted market prices.

Level 2 Inputs

Estimated fair values of U.S. Treasury securities and fixed-income funds are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments.

The derivative instrument consists solely of an interest rate swap that is not traded on an exchange and is recorded at fair value based on a variety of observable inputs, including contractual terms, interest rate curves, measure of volatility, and correlations of such inputs.

Investments in Entities that Calculate Net Asset Value per Share

Allendale holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share of the investment company.

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2018	June 30, 2017	June 30, 2018		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Hedge funds	$ 696,744	$ 638,757	$ -	Quarterly	65 days

The hedge fund is composed of various investment managers that may employ a variety of alternative investment strategies, including equity securities, bonds and other fixed-income securities, real estate investment trusts, mortgage-backed securities, other asset-backed securities, collateralized debt obligations, and non-U.S. securities.

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Land and improvements	$ 2,212,840	$ 2,177,612	10-15
Building and improvements	27,997,082	27,799,991	5-25
Furniture and equipment	5,437,286	5,142,343	3-10
Vehicles	974,537	928,071	3-7
Assets under construction	34,339	44,534	-
Total cost	36,656,084	36,092,551	
Less accumulated depreciation	24,455,409	23,057,774	
Net carrying amount	$ 12,200,675	$ 13,034,777	

Depreciation expense for 2018 and 2017 was $1,397,636 and $1,420,614, respectively.

Note 7 - Line of Credit

Under a line of credit agreement with a bank, Allendale has available borrowings of approximately $2,500,000 and $1,500,000 as of June 30, 2018 and 2017, respectively. Interest is payable monthly at a variable rate, as determined by the bank's prime interest rate index (an effective rate of 5.00 and 4.25 percent at June 30, 2018 and 2017, respectively). Interest expense for 2018 and 2017 was $5,055 and $96, respectively. The line of credit is collateralized by a security interest in all of Allendale's assets and matures in February 2019. There were no outstanding borrowings as of June 30, 2018 and 2017. It is management's expectation the line of credit will be renewed.

Note 8 - Bonds Payable

On October 17, 2001, the Village of Lake Villa, Ilinois (the "Village") issued $5,200,000 in variable-rate demand revenue bonds. The proceeds of the bonds were then loaned to Allendale to finance construction of a residential treatment unit and a community outpatient counseling center with a training facility and to refinance outstanding debt. In accordance with the above, on October 13, 2011, Allendale issued an irrevocable letter of credit in the amount of $3,330,562 supporting payment of the loan. The letter of credit was issued by Wells Fargo Bank, N.A. and expires on October 2021.

The loan agreement requires annual principal payments that began in October 2003 and continue through October 2026. Interest is payable monthly and began in November 2001. The loan bears interest at the lowest rate of interest that will permit the bonds to be remarketed at par, not to exceed the lesser of 15 percent or the letter of credit interest rate. The interest rate is determined weekly (1.56 and 0.95 percent as of June 30, 2018 and 2017, respectively). The bond payable balance as of June 30, 2018 and 2017 was $1,560,000 and $1,880,000, respectively.

On December 1, 2013, the City of Burbank, Ilinois (Burbank) issued $2,250,000 in a variable-rate demand revenue bond. The proceeds of the bond were loaned to Allendale to finance the purchase of a building in North Chicago, Ilinois to house a program providing residential treatment and educational services and to make building renovations at its Lake Villa campus. Principal and interest on the bond are payable monthly and began in January 2014 with a final payment on December 1, 2028. During the interest period, interest on the bond shall accrue at the rate equal to the quarterly one-month LIBOR, plus 275 basis points multiplied by 70 percent (the initial interest rate). The interest rate was 3.38 and 2.79 percent as of June 30, 2018 and 2017, respectively. The bond payable balance was $1,709,400 and $1,837,800 as of June 30, 2018 and 2017, respectively.

The loan agreements require Allendale to maintain certain ratios and impose certain restrictions on Allendale.

Future principal payments by fiscal year for the bonds payable outstanding as of June 30, 2018 are as follows:

Years Ending	Amount
2019	$ 267,990
2020	278,390
2021	293,790
2022	304,790
2023	320,790
Thereafter	1,803,650
Total	$ 3,269,400

Interest expense for 2018 and 2017 was $129,742 and $145,468, respectively.

Note 9 - Interest Rate Swap Agreements

On July 15, 2008, Allendale began utilizing a derivative financial instrument to reduce its exposure to market risks from changes in interest rates on its revenue bonds (see Note 8). The instrument used to mitigate these risks is an interest rate swap. Allendale holds two interest rate swap agreements with First American Bank. Any change in fair value of the interest rate swap agreements is recognized in the statement of activities.

Allendale is exposed to credit-related losses in the event of nonperformance by the counterparty to this financial instrument. However, the counterparty to these agreements is First American Bank and the risk of loss due to nonperformance is considered by management to be minimal. Allendale does not hold or issue interest rate swaps for trading purposes.

As of June 30, 2018 and 2017, Allendale's interest rate swaps' notional amounts were \$3,269,400 and \$3,717,800, respectively. The notional amounts do not represent a measure of the exposure to Allendale.

Allendale's interest swap agreement with a notional balance of \$1,560,000 and \$1,880,000 as of June 30, 2018 and 2017, respectively, matured on July 16, 2018 and had a fixed rate of 3.39 percent. Allendale paid the counterparty interest at a fixed rate as noted, and the counterparty paid Allendale interest at a variable rate equal to the USD-SIFMA Municipal Swap Index rate. The interest swap agreement was not renewed during 2018.

Allendale's interest swap agreement with a notional balance of \$1,709,400 and \$1,837,800 as of June 30, 2018 and 2017, respectively, matures on December 1, 2028 and has a fixed rate of 2.03 percent. Allendale will pay the counterparty interest at a fixed rate as noted, and the counterparty will pay Allendale interest at 70 percent of the USD-LIBOR-BBA index rate.

As of June 30, the fair value of interest rate swaps on the statement of financial position was as follows:

	Liability Derivatives	
	2018	2017
Fair value of interest rate swap liability (see Note 5)	$ 4,364	$ 98,565

The amount of gain or loss recognized on interest rate swaps in the statement of activities is as follows:

	Amount of Gain (Loss) Recognized in Earnings	
	2018	2017
Change in fair value of interest rate swap agreements - Net of periodic settlement payments	$ 94,201	$ 152,249
Interest expense and financing fees	(57,270)	(82,949)
Total gain on derivative instrument	$ 36,931	$ 69,300

Note 10 - Pension and OPEB

Allendale has a defined benefit retirement plan (the "Plan") covering substantially all employees with one year of continuous service who meet the age requirements of the Plan. Effective May 1, 2005, Allendale froze future benefit accruals under the Plan. Participants will receive the benefit they had accrued as of that date upon their retirement or termination of employment.

Plan benefits are computed based on actuarial assumptions under the unit cost method. If Allendale were to terminate the Plan, different actuarial assumptions would be used to determine the actuarial present value of the pension obligation.

Note 10 - Pension and OPEB (Continued)

Obligations and Funded Status

		Pension Benefits	
		2018	2017
Projected benefit obligation		$ 7,141,631	$ 7,326,188
Fair value of plan assets at end of year		5,678,040	5,630,770
Funded status at end of year		$ (1,463,591)	$ (1,695,418)

Amounts recognized in the statement of financial position consist of the following:

	Pension Benefits	
	2018	2017
Accrued pension cost	$ (1,463,591)	$ (1,695,418)

The amounts in unrestricted net assets that have not yet been recognized as components of net periodic benefit cost are as follows:

	Pension Benefits	
	2018	2017
Net actuarial loss	$ 2,075,753	$ 2,445,132

	Pension Benefits	
	2018	2017
Net Periodic Benefit Cost and Benefits Paid		
Net periodic benefit cost	$ 137,552	$ 337,422
Benefits paid	(249,919)	(496,637)
Other Changes in Plan Assets and Benefit Obligations Recognized in the Statement of Activities		
Net gain	(230,150)	(610,109)
Amortization of net loss	(139,229)	(188,091)
Amount recognized due to settlement	-	(167,468)
Total recognized in the statement of activities	(369,379)	(965,668)
Total recognized in net periodic benefit cost and statement of activities	$ (481,746)	$ (1,124,883)

Weighted-average assumptions used to determine benefit obligations and net period cost for the years ended June 30 are as follows:

	Pension Benefits	
	2018	2017
Discount rate:		
Preretirement	4.05	3.85
Postretirement	4.05	3.85
Net periodic benefit cost	4.15	4.05
Long-term rate of return on plan assets	6.00	6.50

Note 10 - Pension and OPEB (Continued)

The pension plan's weighted-average asset allocation as of June 30 is as follows:

	Pension Benefits	
	2018	2017
Equity securities	56.19	50.56
Insurance company's general account	4.08	9.16
Fixed income	39.73	40.28

Allendale's expected long-term return on plan assets assumption is based on a periodic review and modeling of the Plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from the range of reasonable rates determined by (a) historical real returns, net of inflation, for the asset classes covered by the investment policy and (b) projected inflation over the long-term period during which benefits are payable to plan participants.

Pension Plan Assets

Allendale's investment policy for its defined benefit retirement plan includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are the target allocations range (shown above) by major asset categories.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the Plan's actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is periodically reviewed by Allendale and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

As of June 30, 2018 and 2017, the target allocations for the pension plan by asset category are as follows: equity securities, 50 percent, and fixed income and cash, 50 percent.

The fair values of Allendale’s pension plan assets at June 30, 2018 and 2017 by major asset classes are as follows:

	Fair Value Measurements at June 30, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Marketable equity securities	$ 3,190,804	$ -	$ 3,190,804
Fixed-income funds	-	2,255,653	2,255,653
Total	$ 3,190,804	$ 2,255,653	$ 5,446,457

Note 10 - Pension and OPEB (Continued)

	Fair Value Measurements at June 30, 2017		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Marketable equity securities	$ 2,847,080	$ -	$ 2,847,080
Fixed-income funds	-	2,267,830	2,267,830
Total	$ 2,847,080	$ 2,267,830	$ 5,114,910

The tables above present information about the pension plan assets measured at fair value at June 30, 2018 and 2017 and the valuation techniques used by Allendale to determine those fair values.

The fair value of Level 1 inputs, equity securities, is determined by external fund managers based on quoted market prices in active markets.

Fair values determined by Level 2 inputs, fixed-income funds, are derived from readily abailable pricing sources and third-party pricing services for identical or comparable instruments.

Not included in the above tables are $231,583 and $515,860 of cash equivalents invested in the insurance company's general account for the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018 and 2017, Allendale accrued interest payable to the spouse of a former employee, as previously authorized by the board of trustees in the amount of $4,125 and $10,939, respectively.

Cash Flow

The following benefit payments related to the pension plan, which reflect expected future service, are expected to be paid:

Years Ending June 30	Pension Benefits
2019	$ 1,340,000
2020	220,000
2021	46,000
2022	380,000
2023	690,000
Thereafter	2,590,000

Note 11 - Defined Contribution Plan

Allendale also provides a defined contribution retirement plan, which covers substantially all of its employees with one year of continuous service who meet the age requirements of the plan. The plan provides for Allendale to make matching contributions of 100 percent up to 5 percent of participants' salaries, which vest over four years. The matching contributions were $480,025 and $519,274 for the years ended June 30, 2018 and 2017, respectively.

Note 12 - Leases

Allendale has entered into various facility lease agreements with monthly payments ranging from approximately $1,800 to $12,400. These leases are at various locations and mature from 2019 through 2022.

Note 12 - Leases (Continued)

The following is a schedule of future minimum rental payments under the operating leases:

Years Ending June 30	Amount
2019	$ 338,297
2020	178,985
2021	132,043
2022	120,000
2023	10,000
Total	$ 779,325

Rent expense charged to operations, including pass-through operating expenses for certain locations and short-term leases, amounted to $365,152 and $373,014 for the years ended June 30, 2018 and 2017, respectively.

Note 13 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes:

	2018	2017
Purpose restrictions:		
Alumni scholarship funds	$ 6,986	$ 9,576
School district counseling grant	-	39,499
Charitable gift annuity	18,460	17,908
Miscellaneous	14,709	1,339
Total purpose restrictions	40,155	68,322
Time restriction - Individual pledge of life insurance	25,000	25,000
Total temporarily restricted net assets	$ 65,155	$ 93,322

Note 14 - Endowments

Permanently restricted net assets relate to donations made in prior years in which the gift's principal was to be perpetually invested and the income used for program operations.

Allendale's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 14 - Endowments (Continued)

Interpretation of Relevant Law

The board of trustees of Allendale has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Allendale classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Allendale in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Allendale considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Allendale and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Allendale
- The investment policies of Allendale

	Endowment Net Asset Composition by Type of Fund as of June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 170,643	$ 170,643
Board-designated endowment funds	7,413,545	-	-	7,413,545
Total	$ 7,413,545	$ -	$ 170,643	$ 7,584,188

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 6,964,507	$ -	$ 170,643	$ 7,135,150
Net investment return	454,240	5,442	-	459,682
Contributions	30,000	-	-	30,000
Investment management fees	(35,202)	-	-	(35,202)
Appropriation of endowment assets for expenditure	-	(5,442)	-	(5,442)
Endowment net assets - End of year	$ 7,413,545	$ -	$ 170,643	$ 7,584,188

Note 14 - Endowments (Continued)

	Endowment Net Asset Composition by Type of Fund as of June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 170,643	$ 170,643
Board-designated endowment funds	6,964,507	-	-	6,964,507
Total	$ 6,964,507	$ -	$ 170,643	$ 7,135,150

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 6,289,122	$ -	$ 170,643	$ 6,459,765
Net investment return	682,960	4,261	-	687,221
Contributions	28,702	-	-	28,702
Investment management fees	(36,277)	-	-	(36,277)
Appropriation of endowment assets for expenditure	-	(4,261)	-	(4,261)
Endowment net assets - End of year	$ 6,964,507	$ -	$ 170,643	$ 7,135,150

Funds with Deficiencies

As of June 30, 2018 and 2017, there were no funds with deficiencies.

Return Objectives and Risk Parameters

Allendale 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 Allendale must hold in perpetuity, as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve a cumulative return on investment percentage that exceeds the Standard & Poor's 500 index by at least 300 basis points over a three-year period. Fixed-income assets are invested with the objective to achieve a cumulative return on investment percentage that exceeds the Lehman Aggregate index by at least 150 basis points over a three-year period. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Allendale 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). Allendale targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 14 - Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

Allendale has a policy of appropriating for distribution each year an amount that shall not exceed 5 percent of a three-calendar-year trailing average of the fair market value of the funds. The distribution percentage utilized each year is determined by the board of trustees when approving the annual budget. In establishing this policy, Allendale considers the long-term expected return on its endowment. Accordingly, over the long term, Allendale expects the current spending policy to allow its endowment to grow annually at a level equal to changes in the CPI. This is consistent with Allendale's objective to provide additional real growth through new gifts and investment returns.

Note 15 - Concentrations

Allendale receives a substantial portion of its support from the State of Illinois. This support totaled approximately 59 and 54 percent of the total revenue for the fiscal years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, Allendale had total receivables from the Illinois Department of Human Services, the Illinois Department of Children and Family Services, and the Illinois Department of Healthcare and Family Services amounting to $1,662,228 and $2,195,396, respectively.