The Allendale Association

Financial Report
June 30, 2016

The Allendale Association

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, 2016 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.

To the Board of Trustees
The Allendale Association

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, 2016 and the changes in its net assets and its 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 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 22, 2016

The Allendale Association

Statement of Financial Position

	June 30, 2016	June 30, 2015
Assets		
Cash and cash equivalents	$ 3,565,786	$ 5,398,442
Accounts receivable - Net	3,028,516	2,823,154
Pledge receivable - Net	148,073	148,073
Prepaid expenses and other	144,064	140,681
Investments	6,482,038	6,598,575
Property and equipment - Net	14,040,767	14,912,406
Bond issuance costs - Net	121,878	132,688
Advances and deposits	51,402	35,444
Total assets	**$ 27,582,524**	**$ 30,189,463**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued expenses	$ 713,551	$ 799,084
Accrued salaries, wages, and other compensation	812,256	1,721,660
Interest rate swap agreements - At fair value	250,814	241,971
Bond payable	4,146,400	4,559,800
Accrued pension cost	2,323,664	1,192,423
Total liabilities	8,246,685	8,514,938
Net Assets		
Undesignated	12,654,114	14,902,214
Board-designated	6,289,122	6,406,645
Total unrestricted and board-designated	18,943,236	21,308,859
Temporarily restricted	221,960	195,023
Permanently restricted	170,643	170,643
Total net assets	19,335,839	21,674,525
Total liabilities and net assets	**$ 27,582,524**	**$ 30,189,463**

The Allendale Association

Statement of Activities
Year Ended June 30, 2016
(with Summarized Totals for Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Government Support					
Service fees and grants	$ 31,210,636	$ -	$ -	$ 31,210,636	$ 34,252,430
School lunch program	270,103	-	-	270,103	225,585
Public Support - Contributions and special events	534,938	158,604	-	693,542	1,010,292
Revenue and Gains					
Service fees - Third party	355,701	-	-	355,701	335,327
Client and family fees	118,668	-	-	118,668	8,197
Program sales	35,413	-	-	35,413	35,635
Net realized and unrealized loss on investments	(249,104)	(816)	-	(249,920)	(83,960)
Investment and dividend income	174,770	599	-	175,369	185,003
Change in fair value of interest rate swap agreements - Net of periodic settlement payments	(8,843)	-	-	(8,843)	39,521
Miscellaneous	10,352	-	-	10,352	9,126
Net assets released from restrictions	131,450	(131,450)	-	-	-
Total support and revenue	32,584,084	26,937	-	32,611,021	36,017,156
Expenses					
Program services:					
Residential treatment	12,590,209	-	-	12,590,209	12,956,496
North Chicago	2,128,522	-	-	2,128,522	2,107,947
Group homes	2,631,512	-	-	2,631,512	2,947,679
Benet Lake, WI	2,015,514	-	-	2,015,514	2,096,775
Special education	9,679,487	-	-	9,679,487	9,980,541
Foster care	1,068,102	-	-	1,068,102	1,023,353
Transitional living	-	-	-	-	1,264,640
Independent living	96,306	-	-	96,306	335,625
Youth community services	342,922	-	-	342,922	440,153
Outpatient clinic	440,424	-	-	440,424	578,219
Total program services	30,992,998	-	-	30,992,998	33,731,428
Support services:					
Management and general	2,468,874	-	-	2,468,874	2,420,929
Fundraising	207,647	-	-	207,647	313,946
Total support services	2,676,521	-	-	2,676,521	2,734,875
Total expenses	33,669,519	-	-	33,669,519	36,466,303
(Decrease) Increase in Net Assets Before Change in Pension-related Changes	(1,085,435)	26,937	-	(1,058,498)	(449,147)
Pension-related Changes Other Than Net Periodic Pension Benefit Cost	(1,280,188)	-	-	(1,280,188)	(219,749)
Change in Net Assets	(2,365,623)	26,937	-	(2,338,686)	(668,896)
Net Assets - Beginning of year	21,308,859	195,023	170,643	21,674,525	22,343,421
Net Assets - End of year	**$ 18,943,236**	**$ 221,960**	**$ 170,643**	**$ 19,335,839**	**$ 21,674,525**

See Notes to Financial Statements.

Statement of Functional Expenses
Year Ended June 30, 2016
(with summarized totals for year ended June 30, 2015)

	2016															
	Program Services											Support Services			Total Expenses	
	Residential Treatment	North Chicago	Group Homes	Benet Lake	Special Education	Foster Care	Transitional Living	Independent Living	Youth Community Services	Outpatient Clinic	Total	Management and General	Fundraising	Total	2016	2015
Salaries	$ 7,370,646	$ 1,280,142	$ 1,609,784	$ 1,133,144	$ 5,678,213	$ 362,208	$ -	$ 49,225	$ 187,025	$ 186,017	$ 17,856,404	$ 1,360,826	$ 131,247	$ 1,492,073	$ 19,348,477	$ 20,851,115
Employee benefits	1,543,973	271,959	360,127	242,103	1,369,312	89,236	-	11,639	46,424	45,868	3,980,641	349,783	32,575	382,358	4,362,999	4,776,219
Payroll taxes	553,136	96,122	121,124	85,103	428,614	27,366	-	3,712	14,136	14,055	1,343,368	103,020	9,920	112,940	1,456,308	1,561,254
Total salaries and related expenses	9,467,755	1,648,223	2,091,035	1,460,350	7,476,139	478,810	-	64,576	247,585	245,940	23,180,413	1,813,629	173,742	1,987,371	25,167,784	27,188,588
Professional fees and contract service payments	530,886	74,440	53,266	63,116	299,911	18,056	-	1,680	35,185	48,816	1,125,356	246,114	-	246,114	1,371,470	1,436,797
Supplies	771,280	97,937	81,264	106,821	308,405	24,194	-	(4,042)	7,972	8,459	1,402,290	85,926	12,407	98,333	1,500,623	1,654,436
Telecommunications	107,364	5,636	15,929	16,557	41,015	10,002	-	1,949	2,926	5,967	207,345	8,186	1,032	9,218	216,563	282,093
Postage and shipping	21,749	3,369	4,602	3,415	16,660	1,042	-	-	470	610	51,917	5,698	475	6,173	58,090	60,214
Occupancy	420,824	51,777	108,183	176,173	563,967	25,364	-	824	13,617	63,502	1,424,231	22,579	3,756	26,335	1,450,566	1,453,780
Equipment repairs, maintenance, and rentals	65,465	14,319	15,254	17,520	54,031	2,245	-	243	949	4,386	174,412	-	2	2	174,414	209,099
Insurance premiums	152,951	23,689	32,360	23,868	112,814	7,330	-	-	3,308	4,291	360,611	18,147	1,788	19,935	380,546	354,243
Outside printing, artwork, etc.	7,982	614	839	619	6,895	539	-	-	389	562	18,439	-	9,813	9,813	28,252	30,805
Local transportation	149,535	27,454	31,584	14,376	56,062	29,899	-	1,137	16,049	4,732	330,828	4,746	121	4,867	335,695	420,175
Training, conferences, and meetings	3,562	-	315	315	2,792	-	-	-	-	70	7,054	12,954	-	12,954	20,008	32,538
Subscriptions and reference publications	1,661	231	316	233	1,593	72	-	-	32	127	4,265	1,175	89	1,264	5,529	3,958
Client-specific assistance	275,406	40,423	96,995	43,576	106,870	441,234	-	29,224	1,431	59	1,035,218	-	-	-	1,035,218	1,257,108
Membership and accreditation dues	33,097	4,818	6,582	8,995	38,384	1,491	-	-	673	3,406	97,446	455	805	1,260	98,706	76,975
Staff recruitment and marketing advertising	28,622	4,393	6,001	4,426	33,168	11,413	-	-	5,150	6,681	99,854	15,966	357	16,323	116,177	121,172
Interest expense and financing fees	99,141	26,289	3,321	3,087	71,264	5,058	-	-	2,520	13,886	224,566	4,635	2,142	6,777	231,343	249,601
Provision for uncollectible accounts	(1,167)	-	-	-	989	-	-	-	-	8,513	8,335	-	-	-	8,335	(1,921)
Miscellaneous, primarily special event fees	4,465	987	949	3,102	3,343	81	-	715	42	148	13,832	835	-	835	14,667	119,798
Depreciation	449,631	103,923	82,717	68,965	485,185	11,272	-	-	4,624	20,269	1,226,586	227,829	1,118	228,947	1,455,533	1,516,844
Total functional expenses for year ended June 30, 2016	**$12,590,209**	**$2,128,522**	**$2,631,512**	**$2,015,514**	**$9,679,487**	**$1,068,102**	**$ -**	**$ 96,306**	**$ 342,922**	**$ 440,424**	**$30,992,998**	**$2,468,874**	**$ 207,647**	**$2,676,521**	**$33,669,519**	
Total functional expenses for year ended June 30, 2015	**$12,956,496**	**$2,107,947**	**$2,947,679**	**$2,096,775**	**$9,980,541**	**$1,023,353**	**$1,264,640**	**$ 335,625**	**$ 440,153**	**$ 578,219**	**$33,731,428**	**$2,420,929**	**$ 313,946**	**$2,734,875**		**$36,466,303**

Statement of Cash Flows

	Year Ended June 30, 2016	Year Ended June 30, 2015
Cash Flows from Operating Activities		
Decrease in net assets	$ (2,338,686)	$ (668,896)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,455,533	1,516,844
Bond cost amortization	10,810	10,811
Net realized and unrealized losses on investments	249,920	83,960
Change in fair value of interest rate swap agreements	8,843	(39,521)
Provision for losses on receivables	8,335	(1,921)
Changes in operating assets and liabilities which (used) provided cash:		
Receivables	(213,697)	(275,339)
Pledges receivable	-	5,000
Prepaid expenses and other assets	(3,383)	(17,509)
Advances and deposits	(15,958)	10,246
Accounts payable and accrued expenses	(947,454)	(15,705)
Accrued pension cost	1,131,241	351,633
Net cash (used in) provided by operating activities	(654,496)	959,603
Cash Flows from Investing Activities		
Proceeds from sale of investments	2,328,231	2,606,007
Purchases of investments	(2,461,614)	(2,458,080)
Capital expenditures	(631,377)	(1,870,574)
Net cash used in investing activities	(764,760)	(1,722,647)
Cash Flows from Financing Activities - Payments on bond	(413,400)	(394,400)
Net Decrease in Cash and Cash Equivalents	(1,832,656)	(1,157,444)
Cash and Cash Equivalents - Beginning of year	5,398,442	6,555,886
Cash and Cash Equivalents - End of year	**$ 3,565,786**	**$ 5,398,442**
Supplemental Disclosure of Cash Flow Information		
Cash payments of interest	$ 162,082	$ 175,663
Fixed asset additions included in AP	-	47,483

See Notes to Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

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, transitional living, foster care, independent living, community-based mentoring, and an outpatient clinic.

Basis of Presentation - The accompanying financial statements of Allendale have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Classification of Net Assets - Net assets of Allendale are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting Allendale's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. 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.

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 statement 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 1 - Nature of Business and 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.

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.

Concentration 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.

Allendale's accounts receivable balance for program service fees and grants as of June 30, 2016 and 2015 is primarily from State of Illinois agencies.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash Equivalents - For the purpose of the statement of cash flows, Allendale considers all highly liquid investment instruments 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.

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 a different amount.

Tax Status - Allendale is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Allendale and recognize a tax liability if Allendale has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by Allendale and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 22, 2016, which is the date the financial statements were available to be issued.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Upcoming Accounting Changes - The Financial Accounting Standards Board (FASB) issued Acounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in August 2016. ASU 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 require disclosures about 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 is currently evaluating the impact this standard will have on the financial statements.

In May 2014, the Financial Accounting Standards Board 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, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. Allendale has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-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, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined.

Note 2 - Accounts Receivable

Accounts receivable consist of the following:

	2016	2015
Program services fees and grants	$ 3,034,603	$ 2,797,898
Outpatient clinic	71,428	103,804
Other	6,497	5,144
Less allowance for doubtful accounts	(84,012)	(83,692)
Total	$ 3,028,516	$ 2,823,154

Note 3 - Pledges Receivable

Amounts due from donors for unpaid pledges of contributions as of June 30, 2016 and 2015 are expected to be collected as follows:

	2016	2015
Within one year	$ 142,923	$ 134,506
Within two to five years	-	8,417
Later	25,000	25,000
Less allowance for uncollectible pledges receivable	(19,850)	(19,850)
Total pledges receivable	$ 148,073	$ 148,073

Note 4 - 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. 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.

Note 4 - Fair Value Measurements (Continued)

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.

As of July 1, 2015, Allendale implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above. Allendale did not hold any investments valued at net asset value in 2015.

The following tables present information about Allendale's assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and 2015 and the valuation techniques used by Allendale to determine those fair values.

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2016

	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, 2016
Assets					
Money market funds	$ 262,658	$ -	$ -	$ -	$ 262,658
Marketable equity funds:					
U.S. large cap	1,085,133	-	-	-	1,085,133
U.S. mid cap	465,945	-	-	-	465,945
U.S. small cap	173,843	-	-	-	173,843
International	617,683	-	-	-	617,683
Emerging markets	434,539	-	-	-	434,539
Real estate fund	311,823	-	-	-	311,823
Fixed-income funds:					
Corporate bonds	-	713,615	-	-	713,615
International bonds	269,943	277,854	-	-	547,797
Government agency bonds	-	176,180	-	-	176,180
Equity mutual funds	152,097	-	-	-	152,097
Mutual funds - Other	678,409	-	-	-	678,409
U.S. Treasury securities	-	266,330	-	-	266,330
Hedge funds	-	-	-	595,986	595,986
Total assets	$ 4,452,073	$ 1,433,979	$ -	$ 595,986	$ 6,482,038
Liabilities - Interest rate swap	$ -	$ (250,814)	$ -	$ -	$ (250,814)

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2015

	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, 2015
Assets					
Money market funds	$ 179,494	$ -	$ -	$ -	$ 179,494
Marketable equity funds:					
U.S. large cap	1,381,846	-	-	-	1,381,846
U.S. mid cap	393,575	-	-	-	393,575
U.S. small cap	187,625	-	-	-	187,625
International	512,346	-	-	-	512,346
Emerging markets	450,156	-	-	-	450,156
Real estate fund	383,625	-	-	-	383,625
Fixed-income funds:					
High yield bonds	-	83,052	-	-	83,052
Corporate bonds	-	1,054,914	-	-	1,054,914
International bonds	-	375,050	-	-	375,050
Government agency bonds	-	164,798	-	-	164,798
Equity mutual funds	44,239	-	-	-	44,239
Mutual funds - Other	1,155,779	-	-	-	1,155,779
U.S. Treasury securities	-	232,076	-	-	232,076
Total assets	$ 4,688,685	$ 1,909,890	$ -	$ -	$ 6,598,575
Liabilties - Interest rate swap	$ -	$ (241,971)	$ -	$ -	$ (241,971)

Allendale's policy is to recognize transfers in and out of Levels 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, 2016 and 2015.

Level 1 Inputs

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

Note 4 - Fair Value Measurements (Continued)

Level 2 Inputs

Estimated fair values of fixed-income funds and U.S. Treasury securities 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. Allendale's derivative instrument is classified as Level 2 in the fair value hierarchy.

Investments in Entities that Calculate Net Asset Value per Share

Allendale holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

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

	June 30, 2016	June 30, 2015	June 30, 2016		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Hedge funds	$ 595,986	$ -	$ -	Quarterly	65 days

The hedge fund is comprised 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 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015	Depreciable Life - Years
Land and improvements	$ 2,073,571	$ 1,989,827	10-15
Building and improvements	27,721,884	27,603,096	5-25
Furniture and equipment	4,981,145	4,694,361	3-10
Vehicles	908,172	873,538	3-7
Assets under construction	27,504	54,583	-
Total cost	35,712,276	35,215,405	
Less accumulated depreciation and amortization	(21,671,509)	(20,302,999)	
Net carrying amount	$ 14,040,767	$ 14,912,406	

Note 6 - Line of Credit

Allendale has an unsecured revolving line of credit agreement totaling $1,500,000 with interest at a variable interest rate as determined by the bank's prime interest rate index, expiring in February 2017. The effective rate as of June 30, 2016 and 2015 was 3.5 percent and 3.25 percent, respectively.

There were no outstanding borrowings as of June 30, 2016 and 2015. It is management's expectation the line of credit will be renewed.

Note 7 - Bond Payable

On October 17, 2001, the Village of Lake Villa (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 the payment of the loan. The letter of credit was issued by Wells Fargo Bank, N.A. and expired on October 14, 2016, with a subsequent renewal expiring on October 14, 2021.

The loan agreement requires variable 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, which 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 (0.46 percent and 0.12 percent as of June 30, 2016 and 2015, respectively). The bond payable balance as of June 30, 2016 and 2015 was $2,185,000 and $2,480,000, respectively.

Note 7 - Bond Payable (Continued)

On December 1, 2013, the City of Burbank (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 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 2.25 percent and 2.05 percent as of June 30, 2016 and 2015, respectively. The bond payable balance was $1,961,400 and $2,079,800 as of June 30, 2016 and 2015, 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 and notes payable outstanding as of June 30, 2016 are as follows:

2017		$ 428,600
2018		448,400
2019		278,800
2020		289,200
2021		304,600
Thereafter		2,396,800
	Total	$ 4,146,400

Note 8 - Derivative Financial Instruments

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 7). 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, 2016 and 2015, Allendale's interest rate swaps' notional amounts were $4,146,400 and $4,559,800, respectively. The notional amounts do not represent a measure of the exposure to Allendale.

Note 8 - Derivative Financial Instruments (Continued)

Allendale's interest swap agreement with a notional balance of $2,185,000 and $2,480,000 as of June 30, 2016 and 2015, respectively, matures on July 16, 2018 and has a fixed rate of 3.39 percent. Allendale will pay the counterparty interest at a fixed rate as noted, and the counterparty will pay Allendale interest at a variable rate equal to the USD-SIFMA Municipal Swap Index rate.

Allendale's interest swap agreement with a notional balance of $1,961,400 and $2,079,800 as of June 30, 2016 and 2015, 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.

The following table presents the amounts and locations of the amounts relating to Allendale's interest rate swaps in the financial statements as of and for the years ended June 30, 2016 and 2015:

	2016	2015
Statement of financial position information -		
Fair value of interest rate swap liability (see Note 4)	$ 250,814	$ 241,971
Statement of activities information -		
Change in fair value of interest rate swap agreements - Net of periodic settlement payments	$ 8,842	$ 39,521
Statement of functional expenses information -		
Interest expense and financing fees	(125,430)	(127,456)
Total loss on derivative instrument	$ (116,588)	$ (87,935)

Note 9 - Pension and Other Postretirement Benefit Plans

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 9 - Pension and Other Postretirement Benefit Plans (Continued)

Obligations and Funded Status

	Pension Benefits	
	2016	2015
Projected benefit obligation	$ 8,000,996	$ 6,642,414
Fair value of plan assets at end of year	5,677,332	5,449,991
Funded status	$ (2,323,664)	$ (1,192,423)

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

	Pension Benefits	
	2016	2015
Accrued pension cost	$ (2,323,664)	$ (1,192,423)

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

	Pension Benefits	
	2016	2015
Net actuarial loss	$ 3,410,800	$ 2,130,609

The accumulated benefit obligation for all defined benefit pension plans was $8,000,996 and $6,642,414 at June 30, 2016 and 2015, respectively.

	Pension Benefits	
	2016	2015
Net Periodic Benefit Cost, Employer Contributions, and Benefits Paid		
Net periodic benefit cost	$ 151,050	$ 131,886
Employer contributions	300,000	-
Benefits paid	(178,817)	-

Other Changes in Plan Assets and Benefit Obligations Recognized in the Statement of Activities

	Pension Benefits	
	2016	2015
Net loss	$ 1,381,951	$ 389,778
Amortization of net loss	(101,763)	(70,334)
Amount recognized due to settlement	-	(99,695)
Total pension-related changes other than net periodic pension benefit cost	$ 1,280,188	$ 219,749

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

Assumptions

The following are the weighted average assumptions used to determine benefit obligations and net period cost for the years ended June 30:

	Pension Benefits	
	2016	2015
Discount rate:		
Pre-retirement	4.75 %	4.00 %
Postretirement	4.75	5.25
Net periodic benefit cost	3.85	4.75
Long-term rate of return on plan assets	6.50	6.00

The pension plan's weighted average asset allocation as of June 30, 2016 and 2015 by asset category is as follows:

	Pension Benefits	
	2016	2015
Equity securities	49.82 %	41.64 %
Insurance company's general account	4.78	12.06
Fixed income	45.40	46.30

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.

The assumed pre-retirement and postretirement mortality tables were changed in 2014 to use 2014 mortality tables. In 2015, the 2014 mortality tables were used.

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

Pension Plan Assets

Investment Policy

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, 2016, the target allocations for the pension plan by asset category are as follows: equity securities, 50 percent and fixed income and cash, 50 percent.

As of June 30, 2015, the target allocations for the pension plan by asset category are as follows: equity securities, 50 percent and insurance company's general cash account, 50 percent.

The fair values of Allendale's pension plan assets at June 30, 2016 by major asset classes are as follows:

Fair Value Measurements at June 30, 2016

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	$ 2,828,616	$ 2,828,616	$ -	$ -
Fixed-income funds	2,577,762	-	2,577,762	-
Total	$ 5,406,378	$ 2,828,616	$ 2,577,762	$ -

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

Fair Value Measurements at June 30, 2015

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	$ 2,269,185	$ 2,269,185	$ -	$ -
Fixed-income funds	2,523,668	-	2,523,668	-
Total	$ 4,792,853	$ 2,269,185	$ 2,523,668	$ -

Level 1 Inputs

Fair value of equity securities is determined by external fund managers based on quoted market prices in active markets.

Level 2 Inputs

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

Not included in the above table is $270,954 and $657,139 of cash equivalents invested in the insurance company's general account for the years ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, Allendale accrued $17,325 including interest payable to the spouse of a former employee as previously authorized by the board of trustees. The balance accrued as of June 30, 2015 was $23,310.

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
2017	$ 970,000
2018	340,000
2019	490,000
2020	170,000
2021	270,000
2022-2026	2,600,000

Note 10 - Defined Contribution Plan

Allendale also has 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. Allendale amended the plan, effective May 1, 2005, to make matching contributions of 100 percent up to 5 percent of participants' salaries, which vest over four years. The matching contributions were $552,279 and $549,242 for the years ended June 30, 2016 and 2015, respectively.

Note 11 - 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 2016 through 2019.

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

Years Ending June 30		Amount
2017		$ 341,799
2018		181,549
2019		148,500
	Total	$ 671,848

Rent expense charged to operations, including pass-through operating expenses for certain locations and short-term leases, amounted to $426,534 and $437,327 for the years ended June 30, 2016 and 2015, respectively.

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Alumni scholarship funds	$ 13,041	$ 10,037
Individual pledge of life insurance	25,000	25,000
Miscellaneous	13,530	-
School district counseling grant	30,974	20,225
Charitable gift annuity	16,342	16,688
Capital campaign	123,073	123,073
Total	$ 221,960	$ 195,023

Allendale completed a capital campaign, which financed the construction of two new buildings: a cafeteria (completed in 2010) and a facilities/maintenance operations support center (completed in 2012), as well as the renovation of several existing buildings at its Lake Villa campus for providing health services, program administration, technology support, and physical education (completed in 2014).

Donation/pledges received for the campaign are considered temporarily restricted assets until the amounts are spent or the assets are placed in service.

Note 13 - Endowments

Endowment

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 consists of three individual funds and includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on existences or absences of donor-imposed restrictions.

Note 13 - 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 and (b) the original value of subsequent gifts to the permanent endowment. 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:

(1) The duration and preservation of the fund
(2) The purposes of Allendale and the donor-restricted endowment fund
(3) General economic conditions
(4) The expected total return from income and the appreciation of investments
(5) Other resources of Allendale
(6) The investment policies of Allendale

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. 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's equity assets are invested in a manner that is intended to achieve a cumulative return on investment percentage which 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 13 - 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 considered 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.

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 170,643	$ 170,643
Board-designated endowment funds	6,289,122	-	-	6,289,122
Total funds	$ 6,289,122	$ -	$ 170,643	$ 6,459,765

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 6,406,645	$ -	$ 170,643	$ 6,577,288
Net investment return	(81,253)	2,967	-	(78,286)
Investment management fees	(36,270)	-	-	(36,270)
Appropriation of endowment	-	(2,967)	-	(2,967)
Endowment net assets - End of year	$ 6,289,122	$ -	$ 170,643	$ 6,459,765

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 170,643	$ 170,643
Board-designated endowment funds	6,406,645	-	-	6,406,645
Total funds	$ 6,406,645	$ -	$ 170,643	$ 6,577,288

Note 13 - Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 6,639,943	$ -	$ 170,643	$ 6,810,586
Net investment return	93,270	-	-	93,270
Investment management fees	(39,300)	-	-	(39,300)
Appropriation of endowment	(287,268)	-	-	(287,268)
Endowment net assets - End of year	$ 6,406,645	$ -	$ 170,643	$ 6,577,288

Note 14 - Concentrations

Allendale receives a substantial portion of its support from the State of Illinois. This support totaled approximately 50 percent of the total revenue for the fiscal years ended June 30, 2016 and 2015. As of June 30, 2016 and 2015, Allendale had receivables from the Illinois Department of Human Services amounting to $1,095,786 and $482,090, respectively.

Beginning July 1, 2015 through the date of this audit report, the State of Illinois is operating without an approved budget. The impact of this delayed budget approval is unknown. However, the State has been complying with court mandates and submitting payments, some of which are timely and some delayed, to Allendale since July 1, 2015.