
Ada S. McKinley Community Services, Inc. and
Subsidiary

**Consolidated Financial Report
with Additional Information
June 30, 2023**

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Independent Auditor's Report

To the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Ada S. McKinley Community Services, Inc. and Subsidiary (the "Organizations"), which comprise the consolidated statement of financial position as of June 30, 2023 and 2022 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organizations as of June 30, 2023 and 2022 and the changes in their net assets, functional expense, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Organizations and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

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

To the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2023 on our consideration of the Organizations' 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 solely 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 effectiveness of the Organizations' 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 Organizations' internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 6, 2023

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Financial Position

June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,090,714	\$ 9,164,180
Funds held in trust (Note 2)	503,116	552,058
Investments (Notes 5 and 6)	3,597,941	-
Receivables - Net (Notes 2 and 4)	7,290,190	4,587,594
Prepaid expenses	422,857	234,979
Total current assets	14,904,818	14,538,811
Investments (Notes 5 and 6)	1,022,301	939,711
Other Assets		
Deposits held in escrow (Note 8)	288,131	283,035
Other assets	253,545	190,211
Right-of-use operating lease assets (Note 11)	1,689,827	-
Property and Equipment - Net (Note 7)	5,840,593	6,054,833
Advances to Affiliates (Note 18)	450,429	423,356
Total assets	\$ 24,449,644	\$ 22,429,957
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,241,952	\$ 1,621,056
Deferred revenue	34,972	125,304
Accrued liabilities and other:		
Accrued wages and related taxes	2,468,277	3,565,263
Accrued interest	13,637	13,661
Settlements payable and other liabilities (Note 12)	3,746,067	3,057,210
Current portion of notes payable (Note 10)	296,001	278,025
Current portion of lease liabilities - Operating (Note 11)	638,576	-
Current portion of pension benefit obligation (Note 13)	734,912	1,279,695
Total current liabilities	10,174,394	9,940,214
Lease Liabilities - Operating (Note 11)	1,051,251	-
Notes Payable (Note 10)	2,018,948	2,314,870
Pension Benefit Obligation (Note 13)	-	4,184,871
Total liabilities	13,244,593	16,439,955
Net Assets		
Without donor restrictions	10,179,310	5,037,052
With donor restrictions (Notes 15 and 16)	1,025,741	952,950
Total net assets	11,205,051	5,990,002
Total liabilities and net assets	\$ 24,449,644	\$ 22,429,957

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30, 2023 and 2022

	2023	2022
Changes in Net Assets without Donor Restrictions		
Revenue and other support:		
Fees and grants from governmental agencies (Note 17)	\$ 36,511,341	\$ 29,342,388
Contract revenue (Note 2)	14,659,719	14,326,396
Contributions	226,571	291,400
Interest income	14,442	-
Investment income	94,223	-
Other revenue	753,589	461,970
Total revenue and other support	52,259,885	44,422,154
Expenses:		
Program services:		
Home-based services	55,111	63,451
Child Day Care Services - Head Start	7,361,892	7,417,511
Counseling	6,134,895	3,792,067
Employment	17,289,745	15,667,537
Foster Family Care	6,806,527	5,963,689
Residential services - ICFDD	3,712,249	3,818,903
Residential services - CILA	3,056,603	2,661,163
Educational services	1,159,000	965,666
Total program services	45,576,022	40,349,987
Support services:		
Management and general	5,689,187	5,542,104
Fundraising	582,072	430,907
Total support services	6,271,259	5,973,011
Total expenses	51,847,281	46,322,998
Increase (Decrease) in Net Assets without Donor Restrictions - Before other items	412,604	(1,900,844)
Other Items		
Paycheck Protection Program loan forgiveness	-	4,428,600
Adjustment to GAAP pension expense from funded pension amount	641,053	854,711
Pension-related change other than net periodic costs	4,088,601	(1,506,969)
Discontinued operations (Note 19)	-	(3,600)
Gain on sale of fixed assets	-	142,882
Increase in Net Assets without Donor Restrictions	5,142,258	2,014,780
Changes in Net Assets with Donor Restrictions		
Realized and change in unrealized gain (loss) on investments - Net	18,946	(243,578)
Investment income	53,845	71,852
Increase (Decrease) in Net Assets with Donor Restrictions	72,791	(171,726)
Increase in Net Assets	5,215,049	1,843,054
Net Assets - Beginning of year	5,990,002	4,146,948
Net Assets - End of year	\$ 11,205,051	\$ 5,990,002

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Functional Expenses

Year Ended June 30, 2023

	Program Services								Support Services				Total
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Home-based Services	Educational Services	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 2,048,143	\$ 2,205,503	\$ 3,251,421	\$ 3,202,806	\$ 2,043,321	\$ 2,100,124	\$ 39,579	\$ 625,510	\$ 15,516,407	\$ 2,982,113	\$ 46,511	\$ 3,028,624	\$ 18,545,031
Employee benefits	258,588	186,508	431,047	389,282	261,481	215,735	3,835	72,906	1,819,382	431,719	7,528	439,247	2,258,629
Payroll taxes	176,900	177,994	285,720	276,929	219,112	223,704	3,829	49,399	1,413,587	213,431	4,332	217,763	1,631,350
Total salaries and related expenses	2,483,631	2,570,005	3,968,188	3,869,017	2,523,914	2,539,563	47,243	747,815	18,749,376	3,627,263	58,371	3,685,634	22,435,010
Professional fees - Contract services	4,101,544	2,407,251	1,349,922	460,688	190,455	118,595	3,527	57,314	8,689,296	713,192	507,863	1,221,055	9,910,351
Supplies	228,827	176,632	1,463,052	68,261	246,753	77,350	446	91,939	2,353,260	72,529	2,032	74,561	2,427,821
Telephone	42,633	96,858	115,864	58,833	34,496	39,786	308	24,759	413,537	152,182	667	152,849	566,386
Postage and shipping	520	724	1,019,908	1,591	303	5	-	-	1,023,051	49,192	-	49,192	1,072,243
Occupancy	341,529	786,451	535,175	197,836	302,481	70,017	489	27,351	2,261,329	503,069	558	503,627	2,764,956
Outside printing and artwork	2,774	7,156	24,664	-	-	-	-	-	34,594	95,258	1,088	96,346	130,940
Local transportation	33,322	9,006	765,623	121,757	36,380	59,723	6	2,563	1,028,380	27,761	31	27,792	1,056,172
Educational conferences and agency meetings	33,955	18,050	47,107	13,726	30,615	27,745	-	32,160	203,358	86,591	-	86,591	289,949
Subscriptions and reference publications	-	99	-	-	-	-	-	-	99	2,908	-	2,908	3,007
Special assistance to individuals	5,183	5,797	7,635,397	1,350,165	39,452	16,789	-	154,526	9,207,309	-	-	-	9,207,309
Equipment rental and maintenance	62,682	45,557	159,506	103,981	40,770	84,396	-	17,084	513,976	52,495	-	52,495	566,471
Membership dues	8,346	146	27,293	139	5,372	9,464	-	85	50,845	30,704	-	30,704	81,549
Bad debt expense	1,594	-	15,701	499,157	11,876	5,352	3,092	-	536,772	-	-	-	536,772
Miscellaneous	3,689	1,285	4,052	2,378	187,481	1,294	-	1,268	201,447	76,965	11,462	88,427	289,874
Depreciation	11,663	9,878	158,293	58,998	61,901	6,524	-	2,136	309,393	199,078	-	199,078	508,471
Total functional expenses	\$ 7,361,892	\$ 6,134,895	\$ 17,289,745	\$ 6,806,527	\$ 3,712,249	\$ 3,056,603	\$ 55,111	\$ 1,159,000	\$ 45,576,022	\$ 5,689,187	\$ 582,072	\$ 6,271,259	\$ 51,847,281

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services								Support Services				Total
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Home-based Services	Educational Services	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 2,132,607	\$ 1,612,407	\$ 2,557,251	\$ 2,820,355	\$ 1,982,561	\$ 1,859,682	\$ 44,814	\$ 513,016	\$ 13,522,693	\$ 3,336,040	\$ 199,945	\$ 3,535,985	\$ 17,058,678
Employee benefits	322,628	202,575	403,600	391,793	302,223	222,200	8,905	71,116	1,925,040	397,586	503	398,089	2,323,129
Payroll taxes	201,247	150,324	236,881	267,174	206,925	199,106	4,675	45,170	1,311,502	231,782	719	232,501	1,544,003
Total salaries and related expenses	2,656,482	1,965,306	3,197,732	3,479,322	2,491,709	2,280,988	58,394	629,302	16,759,235	3,965,408	201,167	4,166,575	20,925,810
Professional fees - Contract services	3,888,248	347,477	1,145,696	471,835	182,114	55,857	2,690	40,997	6,134,914	583,061	223,512	806,573	6,941,487
Supplies	106,277	8,072	1,337,701	60,334	294,986	74,957	447	66,775	1,949,549	119,544	689	120,233	2,069,782
Telephone	70,662	91,298	118,778	53,794	31,378	41,870	128	27,175	435,083	136,427	1,165	137,592	572,675
Postage and shipping	358	244	987,347	2,916	1,098	173	-	1,391	993,527	44,007	-	44,007	1,037,534
Occupancy	598,796	134,918	476,778	296,870	414,813	60,988	545	34,269	2,017,977	248,192	186	248,378	2,266,355
Outside printing and artwork	3,813	3,709	35,650	1,103	7	10	-	3,664	47,956	16,409	98	16,507	64,463
Local transportation	5,729	789	677,206	92,814	20,513	58,248	3	692	855,994	10,387	8	10,395	866,389
Educational conferences and agency meetings	17,223	3,022	22,988	12,655	6,483	4,058	-	9,265	75,694	55,512	-	55,512	131,206
Subscriptions and reference publications	-	-	-	856	-	-	-	-	856	7,448	-	7,448	8,304
Special assistance to individuals	321	4,636	7,284,314	1,262,712	33,389	23,347	-	120,031	8,728,750	-	-	-	8,728,750
Equipment rental and maintenance	31,130	16,955	141,123	53,679	26,227	32,887	-	28,007	330,008	52,190	-	52,190	382,198
Membership dues	10,429	9,283	10,744	1,214	11,249	17,997	-	-	60,916	14,371	-	14,371	75,287
Bad debt expense	-	1,188,983	73,479	107,590	20,879	55	1,244	-	1,392,230	19,551	-	19,551	1,411,781
Miscellaneous	15,054	1,144	4,604	654	221,583	3,103	-	527	246,669	65,249	4,082	69,331	316,000
Depreciation	12,989	16,231	153,397	65,341	62,475	6,625	-	3,571	320,629	204,348	-	204,348	524,977
Total functional expenses	\$ 7,417,511	\$ 3,792,067	\$ 15,667,537	\$ 5,963,689	\$ 3,818,903	\$ 2,661,163	\$ 63,451	\$ 965,666	\$ 40,349,987	\$ 5,542,104	\$ 430,907	\$ 5,973,011	\$ 46,322,998

Ada S. McKinley Community Services, Inc. and Subsidiary

Consolidated Statement of Cash Flows

Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Increase in net assets	\$ 5,215,049	\$ 1,843,054
Adjustments to reconcile increase in net assets to net cash, cash equivalents, and restricted cash from operating activities:		
Realized and change in unrealized (gain) loss on investments	(170,608)	243,578
Bad debt expense	536,772	1,411,781
Depreciation	508,471	524,977
Paycheck Protection Program loan forgiveness	-	(4,428,600)
Gain on sale of property	-	(142,882)
Net periodic benefit cost	258,947	45,289
Pension-related change other than periodic pension expense	(4,088,601)	1,506,969
Changes in operating assets and liabilities that (used) provided cash, cash equivalents, and restricted cash:		
Accounts receivable	(3,066,253)	(1,211,435)
Change in advances/due to affiliate	(30,967)	(450,753)
Other receivables	(173,115)	(14,457)
Other assets	(247,308)	(82,082)
Accounts payable and accrued expenses	620,872	686,458
Accrued wages and related expenses	(1,096,986)	1,028,206
Settlements payable and other liabilities	688,847	1,249,477
Deferred revenue	(90,332)	(307,626)
Pension benefit obligation	(900,000)	(900,000)
Net cash, cash equivalents, and restricted cash (used in) provided by operating activities	(2,035,212)	1,001,954
Cash Flows from Investing Activities		
Purchase of property and equipment	(294,231)	(253,688)
Proceeds from disposition of property and equipment	-	162,093
Purchases of investments	(3,509,923)	(71,387)
Net cash, cash equivalents, and restricted cash used in investing activities	(3,804,154)	(162,982)
Cash Flows Used in Financing Activities - Repayments of mortgage notes payable	(277,946)	(261,018)
Net (Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash	(6,117,312)	577,954
Cash, Cash Equivalents, and Restricted Cash - Beginning of year	9,999,273	9,421,319
Cash, Cash Equivalents, and Restricted Cash - End of year	\$ 3,881,961	\$ 9,999,273
Consolidated Statement of Financial Position Classification of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	\$ 3,090,714	\$ 9,164,180
Funds held in trust	503,116	552,058
Deposits held in escrow	288,131	283,035
Total cash, cash equivalents, and restricted cash	\$ 3,881,961	\$ 9,999,273
Supplemental Cash Flow Information - Cash paid for interest	\$ 102,714	\$ 119,680
Significant Noncash Transactions - New leases resulting in right-of-use assets and lease liabilities	\$ 1,554,097	\$ -

Note 1 - Nature of Business

Ada S. McKinley Community Services, Inc. (McKinley) is an Illinois not-for-profit corporation established to maintain a full range of educational, residential, vocational, recreational, and welfare services; to improve the environmental conditions of the areas in which it operates; to serve people without regard to race, creed, or national origin; and to seek to encourage the highest standards of responsible citizenship among all residents of its service areas.

During 1980, McKinley incorporated Samaritas, Inc. (Samaritas) under the Illinois General Not For Profit Corporation Act. The purpose of Samaritas is "to own, acquire, buy, sell, mortgage, lease, and manage real estate and other related property and to maintain, operate, and manage the same as a not-for-profit organization." Samaritas is exempt from income taxes under Section 501(c)(2) of the Internal Revenue Code. McKinley is the sole member of the corporation. Samaritas has been consolidated into these consolidated financial statements.

Affiliates

McKinley II, Inc.

During 1995, McKinley incorporated McKinley II, Inc. (affiliate) under the Illinois General Not For Profit Corporation Act. The purpose of the affiliate is to comply with the U.S. Department of Housing and Urban Development's (HUD) requirements for participation in its Section 811 project (the development of adult residential facilities for individuals with a developmental disability). HUD required McKinley to establish a single-purpose, not-for-profit corporation (McKinley II, Inc.), which serves as sole owner and borrower for the project.

McKinley III, Inc.

During 1996, McKinley incorporated McKinley III, Inc. (affiliate) under the Illinois General Not For Profit Corporation Act. The purpose of the affiliate is to comply with the U.S. Department of Housing and Urban Development's requirements for participation in its Section 811 project (the development of adult residential facilities for individuals with a developmental disability). HUD required McKinley to establish a single-purpose, not-for-profit corporation (McKinley III, Inc.), which serves as sole owner and borrower for the project.

McKinley IV, Inc.

During 1999, McKinley incorporated McKinley IV, Inc. (affiliate) under the Illinois General Not For Profit Corporation Act. The purpose of the affiliate is to comply with the U.S. Department of Housing and Urban Development's requirements for participation in its Section 811 project (the development of adult residential facilities for individuals with a developmental disability). HUD required McKinley to establish a single-purpose, not-for-profit corporation (McKinley IV, Inc.), which serves as sole owner and borrower for the project.

The boards of directors of these affiliates are separate from that of McKinley. The operations of the affiliates are not included in these consolidated financial statements. See Note 18 for additional transactions between McKinley and the affiliates.

Note 2 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Ada S. McKinley Community Services, Inc. and Subsidiary (the "Organizations") have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organizations.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature; those restrictions will be met by actions of the Organizations or by the passage of time. When a donor restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Additionally, net assets subject to donor-imposed stipulations stating that they may be maintained in perpetuity are contributions made toward their endowment.

Cash Equivalents

The Organizations consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. They maintain their cash and cash equivalents in bank deposit accounts that at times may exceed federally insured limits. The Organizations have not experienced any losses in such accounts. They believe they are not exposed to any significant credit risk on cash and cash equivalents.

Funds Held in Trust

The Organizations maintain various custodial bank accounts for deposits received on behalf of residents. These funds are owed to the members and are available for their benefit and are payable to them on demand. At June 30, 2023 and 2022, the funds totaled \$503,116 and \$552,058, respectively, and the corresponding liability accounts totaled \$503,116 and \$552,058, respectively, which are included in settlement payable and other liabilities.

Accounts Receivable

Accounts receivable are stated at invoice amounts. An allowance for doubtful accounts is established based on a general valuation allowance based on historical loss experience. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Investments

Investments in mutual funds, exchange-traded funds, and U.S. Treasury bills with readily determinable fair values are valued at their fair values in the consolidated statement of financial position. Interest and dividend income and unrealized and realized gains are reported as income on the consolidated statement of activities and changes in net assets and as an increase in net assets. Interest and dividend income is recorded on the accrual basis. Realized gains and losses are recognized on a specific identification basis of cost.

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. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred. The Organizations capitalize expenditures of \$1,000 or more for property, equipment, repairs, and maintenance that improve or extend the life of an existing asset.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

The Organizations report gifts of property, plant, and equipment as support without donor restrictions, and such gifts are excluded from the excess of revenue over expenses unless explicit donor stipulations specify how the donated asset must be used. Gifts of property, plant, and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property, plant, and equipment must be maintained. Expirations of donor restrictions are reported when the donated or acquired property, plant, and equipment are placed in service.

Impairment of Property and Equipment

The Organizations recognize impairment of long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

There was no impairment loss recorded as of June 30, 2023 and 2022.

Leases

The Organizations have operating leases for a building and equipment. The Organizations recognize expense for operating leases on a straight-line basis over the lease term. The Organizations made a policy election not to separate lease and nonlease components for operating leases. Therefore, the full amount of the lease payment is included in the recorded right-of-use asset and lease liability.

The Organizations elected to use the risk-free rate as the discount rate for calculating the right-of-use asset and lease liability in place of the incremental borrowing rate. A right-of-use asset and operating lease liability are measured based on the net present value (NPV) of future lease payments (including expected extensions) using the risk-free rate.

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration to which the Organizations expect to be entitled in exchange for those goods and services. The Organizations maintain legally enforceable contracts with most of their customers that establish general terms. At contract inception, the Organizations assess the goods and services promised in their contracts and identify a performance obligation for each promise that is distinct. The amount of consideration received and revenue recognized is based upon the terms stated in the contracts. The economic factors that impact the nature, timing, and uncertainty of revenue and cash flow do not vary significantly between the Organizations' customers and geographical regions in which they serve.

The Organizations' revenue streams under contracts with customers are composed of environmental services, I-Pass transponder processing and inventory management services, and rehabilitation workshops. These streams are included in contract revenue in the consolidated statement of activities and changes in net assets. Net revenue from customer contracts from environmental services revenue totaled \$12,687,101 and \$12,296,685 for the years ended June 30, 2023 and 2022, respectively. Revenue from customer contracts from I-Pass transponder processing and inventory management services totaled \$1,789,934 and \$1,835,685 for the years ended June 30, 2023 and 2022, respectively. Revenue from customer contracts from rehabilitation workshops totaled \$182,684 and \$194,026 for the years ended June 30, 2023 and 2022, respectively.

For environmental services, the Organizations have performance obligations related to providing cleaning and other custodial services over the agreed-upon contract term. Customers simultaneously receive and consume the benefit of these services as the contract is completed and revenue is recognized based on the right-to-invoice practical expedient. The transaction price is calculated as the amount of consideration to which the Organizations expect to be entitled and based on fixed monthly fees.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

For I-Pass transponder processing and inventory management services, the primary performance obligations are processing of new and replacement transponder orders and testing and disposal of returned transponders. The customer simultaneously receives and consumes the benefit of these services as the contract is completed, and revenue is recognized based on the right-to-invoice practical expedient. The transaction price is calculated as the amount of consideration to which the Organizations expect to be entitled and is based on fixed per unit fees.

For rehabilitation workshops, the Organizations have performance obligations to provide kitting and assembly services for customer-owned materials. The customer simultaneously receives and consumes the benefit of these services as they are performed, and revenue is recognized based on the right-to-invoice practical expedient. The transaction price is calculated as the amount of consideration to which the Organizations expect to be entitled and is determined based on fixed per unit fees.

Accounts receivable from contracts with customers as of June 30, 2023, 2022, and 2021 totaled approximately \$1.3 million, \$1.1 million, and \$1.4 million, respectively. No contract assets or contract liabilities resulted from contracts with customers as of June 30, 2023, 2022, and 2021.

Grant Revenue

Revenue from grants from governmental agencies designated for use in specific activities is recognized in the period that expenditures have been incurred in compliance with the grantor's restrictions. Grant money received in excess of that earned is recorded as deferred revenue.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the period in which the gift is received are both reported as contributions without donor restrictions. Other restricted gifts are reported as restricted support and net assets with donor restrictions.

Donated Services and Assets

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by McKinley. McKinley also had volunteers performing a variety of tasks at its day care facilities; those services are not recognized as contributions in the consolidated financial statements since the recognition criteria were not met.

Donated services and materials, which are a normal part of the programs over which McKinley exercises control, are recorded where there is a clearly measurable basis for their valuation (e.g., rent, supplies, etc.).

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of functional expenses. Costs are charged to program services and support services on an actual basis when available. Allocations for personnel expenses are based on estimates of time and effort of personnel involved in each function. Expenses deemed to be indirect, such as professional services, depreciation, insurance, and supplies, are considered to be management and general unless used specifically by a program. Expenses related to occupancy, such as utilities and depreciation, are allocated based on square footage occupied by each function. Other indirect costs are allocated primarily based on ratio of total expenses or ratio of total salaries. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Federal Income Taxes

McKinley is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Samaritas is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(2).

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Organizations' accounts receivable and held-to-maturity debt securities, by requiring the Organizations to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The ASU also changes the way credit losses are recognized for available-for-sale debt securities. Credit losses are recognized through the recording of an allowance rather than as a write-down of the carrying value. The new guidance will be effective for the Organizations' year ending June 30, 2024. Upon adoption, the ASU will be applied using a modified retrospective transition method.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including December 6, 2023, which is the date the consolidated financial statements were available to be issued.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 3 - Adoption of New Accounting Pronouncement

As of July 1, 2022, the Organizations adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases*. 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. The Organizations elected to adopt the ASU using the modified retrospective method as of July 1, 2022 and applied the following practical expedients:

- The Organizations did not reassess if expired or existing contracts are or contain a lease.
- The Organizations did not reassess the lease classification for expired or existing leases.
- The Organizations did not reassess initial direct costs for any existing leases.

As a result of the adoption of the ASU, the Organizations recorded a right-of-use asset of \$159,174 and a lease liability of \$159,174 as of July 1, 2022 for existing operating leases. There was no impact on retained earnings as a result of adopting the new ASU.

Note 4 - Accounts Receivable

Accounts receivable include the following as of June 30:

	2023	2022
Illinois Department of Healthcare and Family Services	\$ 162,021	\$ 168,498
Illinois Department of Human Services	806,232	572,455
Chicago Department of Family and Support Services	1,360,616	1,384,835
Illinois Department of Children and Family Services	737,084	489,962
Various rehabilitation workshops, contract revenue	1,343,360	1,138,590
Illinois Criminal Justice Information Authority/Chicago Department of Public Health	2,411,821	-
Other receivables	469,056	833,254
Total accounts receivable - Net	\$ 7,290,190	\$ 4,587,594

The allowance for doubtful accounts on the accounts receivable balances was \$443,154 and \$717,623 as of June 30, 2023 and 2022, respectively.

Note 5 - Investments

McKinley's investments are recorded at fair value as of June 30, 2023 and 2022.

The Organizations' investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the consolidated statement of financial position.

Investments consisted of the following at June 30:

	2023	2022
Mutual funds	\$ 852,240	\$ 736,407
Exchange-traded funds	170,061	203,304
U.S. Treasury bills	3,597,941	-
Total	\$ 4,620,242	\$ 939,711

Not included in the table above is \$3,267 and \$13,065 of investments that are included in cash and cash equivalents in the consolidated statement of financial position as of June 30, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 6 - 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 that the Organizations have 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 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.

In instances where 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. The Organizations' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Organizations measure their investments at fair value on a recurring basis. The fair value of their investments, as described in Note 5, is based primarily on Level 1 inputs, as described above.

The Organizations currently have no assets or liabilities required to follow the fair value guidance, which utilizes Level 2 inputs.

The Organizations also had assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. These assets included the assets held for sale, which were assessed annually for impairment. The Organizations had estimated the fair values of these assets based primarily on Level 3 inputs, as described above. Significant Level 3 inputs included comparable properties in the same geographic area. There were no Level 3 assets held as of June 30, 2023 and 2022.

Note 7 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2023	2022	Depreciable Life - Years
Land	\$ 1,898,758	\$ 1,898,758	-
Buildings and improvements	12,871,136	12,709,033	10-40
Furniture and equipment	1,576,415	1,444,286	3-10
Vehicles	140,774	140,774	5
Leasehold improvements	1,563,942	1,563,942	5
Total cost	18,051,025	17,756,793	
Accumulated depreciation	12,210,432	11,701,960	
Net property and equipment	<u>\$ 5,840,593</u>	<u>\$ 6,054,833</u>	

Depreciation expense was \$508,471 for 2023 and \$524,977 for 2022.

Ada S. McKinley Community Services, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 8 - Deposits Held in Escrow

A total of \$288,131 and \$283,035 held in various escrow accounts as of June 30, 2023 and 2022, respectively, is restricted to specific expenditures and requires prior approval by the U.S. Department of Housing and Urban Development.

Note 9 - Line of Credit

McKinley has an available line of credit of \$4,000,000 at June 30, 2023 and 2022, which is used to bridge funding during periods when receipts from funding sources fall below cash disbursement requirements. The line of credit currently has an expiration date of May 31, 2024. Borrowings under the line of credit in 2023 and 2022 are payable on demand and bear interest at a rate of 2.35 and 2.35 percent, respectively, over the federal funds rate. The effective rate as of June 30, 2023 and 2022 was 7.47 and 4.03 percent, respectively. The line is secured by McKinley's receivables, excluding federal government contracts, and is cross-collateralized with the first mortgage on three properties. McKinley must comply with certain financial covenants. As of June 30, 2023 and 2022, the covenant states that the Organizations must have a minimum liquidity of \$2,500,000 measured on a quarterly basis. There were no outstanding borrowings on the line of credit at June 30, 2023 or 2022.

Note 10 - Long-term Debt

Long-term debt at June 30 is as follows:

	<u>2023</u>	<u>2022</u>
<i>McKinley</i> - Section 202 (Direct Loan Program) award from the Department of Housing and Urban Development, payable in monthly installments of \$13,284, including interest at 9.25 percent based on a 454-month amortization schedule, with the final payment due in October 2024. Under this commitment, McKinley constructed five residential care facilities for the developmentally disabled on Chicago's South Side. The note is collateralized by the mortgaged land and buildings	\$ 192,071	\$ 326,869
<i>Samaritas</i> - Mortgage note payable to a bank in monthly installments of \$18,438, including interest at 3.50 percent as of June 30, 2023 and 2022 based on a five-year amortization schedule, with a balloon payment due on May 28, 2025. This note is secured by the mortgaged properties and is guaranteed by Ada S. McKinley Community Services, Inc. The mortgage note payable is subject to a loan covenant requiring minimum liquidity of \$2,500,000 measured on a quarterly basis. The covenant is calculated based on consolidated numbers of Ada S. McKinley Community Services, Inc.	<u>2,122,878</u>	<u>2,266,026</u>
Total	2,314,949	2,592,895
Less current portion	<u>296,001</u>	<u>278,025</u>
Long-term portion	<u><u>\$ 2,018,948</u></u>	<u><u>\$ 2,314,870</u></u>

The balance of the above debt matures as follows:

<u>Years Ending</u>	<u>Amount</u>
2024	\$ 296,001
2025	<u>2,018,948</u>
Total	<u><u>\$ 2,314,949</u></u>

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 11 - Leases

The Organizations are obligated under operating leases primarily for office space and equipment, expiring at various dates through 2027. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 2.84 percent to 4.61 percent. The leases require the Organizations to pay taxes, insurance, utilities, and maintenance costs.

The Organizations have operating leases with a lease term of one year or less that the Organizations elected to account for as short-term leases. As these leases are short-term leases, they are not included in the right-of-use asset and lease liability. Total expense related to short-term leases was \$63,925 for the year ended June 30, 2023.

Future minimum annual commitments under these operating leases are as follows:

Years Ending June 30	Amount
2024	\$ 690,734
2025	659,406
2026	394,022
2027	<u>41,289</u>
Total	1,785,451
Less amount representing interest	<u>95,624</u>
Present value of net minimum lease payments	1,689,827
Less current obligations	<u>638,576</u>
Long-term obligations under leases	<u>\$ 1,051,251</u>

Expenses recognized under these leases for the year ended June 30, 2023 consist of the following:

Other information:

Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows from operating leases	\$ 652,731
Weighted-average remaining lease term (years) - Operating leases	2.7
Weighted-average discount rate - Operating leases	3.6 %

Rent expense for the year ended June 30, 2022 was approximately \$228,000.

Ada S. McKinley Community Services, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 12 - Settlement Payable and Other Liabilities

McKinley has agreements with third-party payors that provide for payments to McKinley for services at established rates, but amounts could be different from the third-party payors' payment amounts. Payment arrangements include prospectively determined reimbursed cost rates. Management has recorded settlements payable under certain programs and has included the estimates of these settlements, including estimated retroactive adjustments under reimbursement agreements with third-party payors in revenue. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

	2023	2022
Illinois Department of Children and Family Services	\$ 2,121,266	\$ 1,352,383
Illinois Department of Public Health	24,456	24,456
Illinois Healthcare and Family Services	26,558	12,107
Custodian fund - Clients	503,116	552,058
Behavior Health Consulting Services	994,000	994,000
Other	76,671	122,206
Total	<u>\$ 3,746,067</u>	<u>\$ 3,057,210</u>

Note 13 - Pension Plan

McKinley has a pension plan covering all employees who have attained age 21 and worked at least 1,000 hours of service during a 12-month period and who are not part of the Agency Federal Contract Employees program. The plan provides defined benefits based on years of credited service. McKinley's policy is to fund pension costs in an amount not less than the amount required by the Employee Retirement Income Security Act of 1974 (ERISA). On March 29, 2013, the plan was amended, changing the benefit formula for employees who are not part of the Service Employees International Union Illinois and Indiana chapters to incorporate a cash balance formula for all service beyond that date.

Obligations and Funded Status

	Pension Benefits	
	2023	2022
Projected benefit obligation	\$ 28,373,811	\$ 32,655,391
Fair value of plan	27,638,899	27,190,825
Funded status	<u>\$ (734,912)</u>	<u>\$ (5,464,566)</u>

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

	Pension Benefits	
	2023	2022
Current liabilities	\$ (734,912)	\$ (1,279,695)
Noncurrent liabilities	-	(4,184,871)
Funded status at year end	<u>\$ (734,912)</u>	<u>\$ (5,464,566)</u>

Amounts not yet recognized as components of net periodic benefit cost consist of the following:

	Pension Benefits	
	2023	2022
Net loss	\$ 4,936,338	\$ 9,024,939

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 13 - Pension Plan (Continued)

The accumulated benefit obligation (which excludes actuarially calculated benefit obligation adjustments due to future compensation) for all defined benefit pension plans was \$28,349,442 and \$32,642,814 at June 30, 2023 and 2022, respectively.

	Pension Benefits	
	2023	2022
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	\$ 258,947	\$ 45,289
Employer contributions	900,000	900,000
Benefits paid	(2,233,265)	(2,166,766)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Net (gain) loss	\$ (3,319,861)	\$ 2,021,364
Amortization of loss	(768,740)	(514,395)
Total recognized in pension-related changes other than net periodic costs	\$ (4,088,601)	\$ 1,506,969

Assumptions

The following assumptions were used to determine the benefit obligation and the net periodic benefit costs as of June 30:

	Pension Benefits	
	2023	2022
Discount rate - Benefit obligation	4.90 %	4.43 %
Discount rate - Net periodic benefit cost	4.43	2.73
Expected long-term return on plan assets	8.05	5.36
Expected rate of compensation increase	3.00	2.00

The expected return on plan assets is based on McKinley's expectation of the long-term average rate of return of the capital markets in which the plan invests. The average market returns are adjusted, where appropriate, for active asset management returns. The expected return reflects the investment policy target asset mix and considers the historical returns earned for each asset category.

Actuarial assumptions utilized in determining the actuarial present value of accumulated plan benefits were changed since the prior valuation date. The interest and discount rate for the obligation were 4.43 percent. The mortality tables were updated to the Pri-2012 Mortality Table projected to 2022 for employees and healthy annuitants with Mortality Improvement Scale MP-2021.

Pension Plan Assets

McKinley's investment policies employ an approach where a mix of equities and fixed-income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The investment portfolio primarily contains a diversified blend of equity and fixed-income investments. Investment and market risks are measured and monitored on an ongoing basis through regular investment portfolio reviews and annual liability measurements. McKinley's actual asset allocations are in line with target allocations in order to stay within a range of allocation for each asset category.

The target allocation of plan assets is 66 percent equity securities, 23 percent debt securities, and 11 percent cash equivalents as of June 30, 2023 and 2022.

Ada S. McKinley Community Services, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 13 - Pension Plan (Continued)

The fair values of the Organizations' pension plan assets at June 30, 2023 and 2022 by major asset classes are as follows:

Asset Classes	Fair Value Measurements at June 30, 2023			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed income:				
Money market funds	\$ -	\$ 452,170	\$ -	\$ 452,170
U.S. government obligations	-	1,850,437	-	1,850,437
Mortgage-backed securities	-	669,886	-	669,886
Collateralized mortgage obligations	-	9,162	-	9,162
Corporate bonds	-	1,123,542	-	1,123,542
Foreign bonds, notes, and debentures	-	124,062	-	124,062
Rights, warrants, and derivatives	-	9,248	-	9,248
Equity:				
Common stock:				
International	574,195	-	-	574,195
United States	4,786,659	-	-	4,786,659
Mutual funds:				
Equity	11,993,601	-	-	11,993,601
Fixed income	5,163,870	-	-	5,163,870
Preferred stock	882,067	-	-	882,067
Total	\$ 23,400,392	\$ 4,238,507	\$ -	\$ 27,638,899

Ada S. McKinley Community Services, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 13 - Pension Plan (Continued)

Asset Classes	Fair Value Measurements at June 30, 2022			
	Quoted Prices in			Total
	Active Markets	Significant Other	Significant	
	for Identical	Observable	Unobservable	
Assets	Inputs	Inputs		
	(Level 1)	(Level 2)	(Level 3)	
Fixed income:				
Money market funds	\$ -	\$ 481,966	\$ -	\$ 481,966
U.S. government obligations	-	1,190,404	-	1,190,404
Mortgage-backed securities	-	335,437	-	335,437
Collateralized mortgage obligations	-	10,898	-	10,898
Corporate bonds	-	1,161,112	-	1,161,112
Foreign bonds, notes, and debentures	-	162,062	-	162,062
Rights, warrants, and derivatives	-	11,480	-	11,480
Equity:				
Common stock:				
International	630,841	-	-	630,841
United States	6,241,860	-	-	6,241,860
Mutual funds:				
Equity	12,072,194	-	-	12,072,194
Fixed income	3,918,754	-	-	3,918,754
Preferred stock	973,817	-	-	973,817
Total	\$ 23,837,466	\$ 3,353,359	\$ -	\$ 27,190,825

The tables above present information about the pension plan assets measured at fair value at June 30, 2023 and 2022 and the valuation techniques used by the Organizations to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Plan 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 in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals. The fair values of money market funds; U.S. government obligations; corporate bonds; foreign bonds; notes and debentures; and rights, warrants, and derivatives were determined primarily by Level 2 inputs.

The Organizations estimate fair values for the money market funds; U.S. government obligations; mortgage-backed securities; collateralized mortgage obligations; corporate bonds; foreign bonds; notes and debentures; and rights, warrants, and derivatives based on similar investments that are traded on the secondary market.

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.

The plan currently has no assets or liabilities that utilize Level 3 inputs.

In instances where 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. The Organizations' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 13 - Pension Plan (Continued)

Cash Flow

Contributions

The Organizations expect to contribute \$900,000 to the pension plan for the fiscal year ending June 30, 2024.

Estimated Future Benefit Payments

Projected benefit payments to retired employees from the plan as of June 30, 2023 are estimated as follows:

<u>Years Ending</u>	<u>Pension Benefits</u>
2024	\$ 3,883,367
2025	1,968,687
2026	2,025,904
2027	1,864,877
2028	2,052,317
2029-2033	8,526,380

Note 14 - Retirement Plan

McKinley sponsors a 403(b) plan for substantially all employees. The plan does not require McKinley to make profit-sharing contributions. Accordingly, there were no contributions in 2023 and 2022.

Note 15 - Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022 are available for the following purposes:

	<u>2023</u>	<u>2022</u>
Donor-restricted endowment (Note 16)	\$ 1,025,741	\$ 952,950

Note 16 - Donor-restricted Endowment

McKinley's endowment includes only donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

McKinley's endowment fund provides support for McKinley's mission to assist individuals and families who, because of disabilities or other limiting conditions, need help in finding and pursuing paths leading to healthy, productive, and fulfilling lives.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 16 - Donor-restricted Endowment (Continued)

Interpretation of Relevant Law

The Organizations are subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classify amounts in their donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Organizations had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing their donor-restricted endowment funds, the Organizations consider a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organizations had interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Organizations consider 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 the Organizations 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 the Organizations
- The investment policies of the Organizations

Endowment Net Asset Composition by Type of Fund
as of June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ -	\$ 1,000,000	\$ 1,000,000
Accumulated investment gains	-	25,741	25,741
Total	\$ -	\$ 1,025,741	\$ 1,025,741

Ada S. McKinley Community Services, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 16 - Donor-restricted Endowment (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2023
Endowment net assets - Beginning of year	\$ 952,950
Investment gain:	
Investment income	53,845
Net appreciation (realized and unrealized)	18,946
Total investment gain	<u>72,791</u>
Endowment net assets - End of year	<u>\$ 1,025,741</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ -	\$ 1,000,000	\$ 1,000,000
Accumulated investment losses	<u>-</u>	<u>(47,050)</u>	<u>(47,050)</u>
Total	<u>\$ -</u>	<u>\$ 952,950</u>	<u>\$ 952,950</u>

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2022
Endowment net assets - Beginning of year	\$ 1,124,676
Investment gain (loss):	
Investment income	71,852
Net depreciation (realized and unrealized)	<u>(243,578)</u>
Total investment loss	<u>(171,726)</u>
Endowment net assets - End of year	<u>\$ 952,950</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organizations to retain as a fund of perpetual duration.

There were no such deficiencies as of June 30, 2023.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 16 - Donor-restricted Endowment (Continued)

Return Objectives and Risk Parameters

McKinley 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 the Organizations must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce an average rate of return of approximately 6 percent annually. 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, McKinley 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). McKinley 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

As stated above, the Organizations are restricted from making any distributions until the endowment maintains a balance of \$1 million. This is consistent with McKinley's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Note 17 - Fees and Grants from Governmental Agencies

	2023	2022
U.S. Department of Education	\$ 943,705	\$ 877,242
U.S. Department of Housing and Urban Development	512,784	519,911
Social Security Administration - Rental supplements	608,500	615,885
Illinois Department of Children and Family Services	7,740,792	7,113,539
Illinois Department of Healthcare and Family Services (Public Aid)	4,706,371	4,038,904
Illinois Department of Human Services:		
Mental Health and Developmental Disabilities	10,842,011	8,276,823
Rehabilitation Services	90,850	13,200
State of Illinois - Board of Education - Food reimbursement programs	11,966	10,687
Chicago Public Schools	176,153	164,594
City of Chicago, Illinois	7,826,193	7,711,603
Illinois Criminal Justice Information Authority	3,052,016	-
	<u>\$ 36,511,341</u>	<u>\$ 29,342,388</u>
Total fees and grants from governmental agencies	<u>\$ 36,511,341</u>	<u>\$ 29,342,388</u>

Ada S. McKinley Community Services, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 18 - Related Party Transactions

McKinley provides various services to the affiliates that are described in Note 1. Revenue related to these services is reported in rehabilitation workshops, contract revenue, and other revenue in the consolidated statement of activities and changes in net assets. Receivables related to these various services are periodically evaluated for collectibility based on current financial condition. Provisions for losses on receivables are determined based on current financial condition. The Organizations consider a receivable to be impaired when, based upon current information and events, it is probable that the Organizations will be unable to collect all amounts due to them. The Organizations do not have any receivables considered to be impaired as of June 30, 2023 and 2022. McKinley had the following balances due to/from its affiliates:

	2023	2022
McKinley II, Inc.	\$ 150,928	\$ 117,300
McKinley III, Inc.	134,344	152,209
McKinley IV, Inc.	165,157	153,847
Total advances to affiliates	<u>\$ 450,429</u>	<u>\$ 423,356</u>

The related party transactions McKinley has with its affiliates, McKinley II, Inc.; McKinley III, Inc.; and McKinley IV, Inc., are as follows:

McKinley II, Inc.

	2023	2022
Management fee	\$ 11,952	\$ 11,220
Accounting/Bookkeeping	2,985	2,971
Janitorial service	40,882	25,869
Total	<u>\$ 55,819</u>	<u>\$ 40,060</u>

McKinley III, Inc.

	2023	2022
Management fee	\$ 5,976	\$ 5,610
Accounting/Bookkeeping	1,512	1,516
Janitorial service	23,780	21,362
Total	<u>\$ 31,268</u>	<u>\$ 28,488</u>

McKinley IV, Inc.

	2023	2022
Management fee	\$ 14,016	\$ 14,016
Accounting/Bookkeeping	3,718	3,564
Janitorial service	26,054	-
Total	<u>\$ 43,788</u>	<u>\$ 17,580</u>

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 19 - Assets Held for Resale and Discontinued Operations

In October 2019, one property was classified as held for sale. The net carrying value of the building (cost less accumulated depreciation) had been classified as assets held for resale as of June 30, 2021. While the building is classified as held for sale, any related revenue or expenses are classified as discontinued operations within the consolidated statement of activities and changes in net assets. During November 2021, this asset held for sale was sold at a gain of \$135,586. The discontinued operations are made up of the following expenses during 2022:

Expenses:	
Maintenance and utilities	\$ (2,373)
Insurance	<u>(1,227)</u>
Total	<u>\$ (3,600)</u>

Note 20 - Liquidity and Availability of Resources

The Organizations have \$13,978,845 and \$13,751,774 of financial assets available within one year of June 30, 2023 and 2022, respectively, to meet cash needs for general expenditures consisting of cash and cash equivalents of \$3,090,714, short-term investments of \$3,597,941, and receivables of \$7,290,190 in 2023 and cash and cash equivalents of \$9,164,180 and receivables of \$4,587,594 in 2022. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date. The Organizations have a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet normal operating expenses. The Organizations have a policy to structure their financial assets to be available as their general expenditures, liabilities, and other obligations come due. The Organizations also have the ability to draw on the line of credit disclosed in Note 9 in the event of an unanticipated liquidity need.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

We have audited the consolidated financial statements of Ada S. McKinley Community Services, Inc. and Subsidiary as of and for the years ended June 30, 2023 and 2022 and have issued our report thereon dated December 6, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the 2023 and 2022 consolidated financial statements as a whole. The additional parent-only statements of Ada S. McKinley Community Services, Inc. are presented for the purpose of additional analysis rather than to present the financial position, activities and changes in net assets, and cash flows of the parent company and are not a required part of the consolidated financial statements. These parent-only statements exclude Samaritas, Inc., a subsidiary that is required to be consolidated under accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2023 and 2022 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the 2023 and 2022 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2023 and 2022 consolidated financial statements as a whole.

Plante & Moran, PLLC

December 6, 2023

Ada S. McKinley Community Services, Inc.

Statement of Financial Position

June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,109,872	\$ 6,970,466
Funds held in trust	503,116	552,058
Investments	2,055,608	-
Receivables - Net	7,290,190	4,587,594
Prepaid expenses	422,857	234,979
Total current assets	12,381,643	12,345,097
Investments	1,022,301	939,711
Other Assets		
Deposits held in escrow	288,131	283,035
Other assets	253,545	190,211
Right-of-use operating lease assets	1,689,827	-
Property and Equipment - Net	3,118,914	3,152,702
Advances to Affiliates	1,966,825	1,210,700
Total assets	\$ 20,721,186	\$ 18,121,456
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,241,952	\$ 1,621,056
Deferred revenue	34,972	125,304
Accrued liabilities and other:		
Accrued wages and related taxes	2,468,277	3,565,263
Accrued interest	13,284	13,284
Settlements payable and other liabilities	3,746,067	3,057,210
Current portion of notes payable	147,889	134,877
Current portion of lease liabilities - Operating	638,576	-
Current portion of pension benefit obligation	734,912	1,279,695
Total current liabilities	10,025,929	9,796,689
Lease Liabilities - Operating - Net of current portion	1,051,251	-
Notes Payable - Net of current portion	44,182	191,992
Pension Benefit Obligation - Net of current portion	-	4,184,871
Due to Affiliates	1,820,981	1,114,180
Total liabilities	12,942,343	15,287,732
Net Assets		
Without donor restrictions	6,753,102	1,880,774
With donor restrictions	1,025,741	952,950
Total net assets	7,778,843	2,833,724
Total liabilities and net assets	\$ 20,721,186	\$ 18,121,456

Ada S. McKinley Community Services, Inc.

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2023 and 2022

	2023	2022
Changes in Net Assets without Donor Restrictions		
Revenue, gains, and other support:		
Fees and grants from governmental agencies	\$ 36,511,341	\$ 29,342,388
Contract revenue	14,659,719	14,326,396
Contributions	226,571	491,400
Interest income	14,442	-
Investment income	51,909	-
Other revenue	778,716	497,087
Total revenue, gains, and other support	52,242,698	44,657,271
Expenses:		
Program services:		
Home-based services	55,111	63,451
Child Day Care Services - Head Start	7,361,892	7,417,511
Counseling	6,134,895	3,792,067
Employment	17,378,490	15,727,109
Foster Family Care	7,089,278	6,024,734
Residential services - ICFDD	3,714,280	3,818,903
Residential services - CILA	3,075,544	2,678,972
Educational services	1,214,149	995,734
Total program services	46,023,639	40,518,481
Support services:		
Management and general	5,494,313	5,580,426
Fundraising	582,072	430,907
Total support services	6,076,385	6,011,333
Total expenses	52,100,024	46,529,814
Increase (Decrease) in Net Assets without Donor Restrictions - Before other items	142,674	(1,872,543)
Other Items		
Paycheck Protection Program loan forgiveness	-	4,428,600
Adjustment to GAAP pension expense from funded pension amount	641,053	854,711
Pension-related change other than net periodic costs	4,088,601	(1,506,969)
Gain on sale of fixed assets	-	7,296
Total other items	4,729,654	3,783,638
Increase in Net Assets without Donor Restrictions	4,872,328	1,911,095
Changes in Net Assets with Donor Restrictions		
Realized and change in unrealized gain (loss) on investments - Net	18,946	(243,578)
Investment income	53,845	71,852
Increase (Decrease) in Net Assets with Donor Restrictions	72,791	(171,726)
Increase in Net Assets	4,945,119	1,739,369
Net Assets - Beginning of year	2,833,724	1,094,355
Net Assets - End of year	\$ 7,778,843	\$ 2,833,724

Statement of Functional Expenses

Year Ended June 30, 2023

	Program Services								Support Services				Total
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Home-based Services	Educational Services	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 2,048,143	\$ 2,205,503	\$ 3,251,421	\$ 3,202,806	\$ 2,043,321	\$ 2,100,124	\$ 39,579	\$ 625,510	\$ 15,516,407	\$ 2,982,113	\$ 46,511	\$ 3,028,624	\$ 18,545,031
Employee benefits	258,588	186,508	431,047	389,282	261,481	215,735	3,835	72,906	1,819,382	431,719	7,528	439,247	2,258,629
Payroll taxes	176,900	177,994	285,720	276,929	219,112	223,704	3,829	49,399	1,413,587	213,431	4,332	217,763	1,631,350
Total salaries and related expenses	2,483,631	2,570,005	3,968,188	3,869,017	2,523,914	2,539,563	47,243	747,815	18,749,376	3,627,263	58,371	3,685,634	22,435,010
Professional fees - Contract services	4,101,544	2,407,251	1,349,922	460,688	190,455	118,595	3,527	57,314	8,689,296	694,859	507,863	1,202,722	9,892,018
Supplies	228,827	176,632	1,463,052	65,436	246,753	77,350	447	91,939	2,350,436	72,529	2,032	74,561	2,424,997
Telephone	42,633	96,858	115,864	58,833	34,496	39,786	308	24,759	413,537	152,182	667	152,849	566,386
Postage and shipping	520	724	1,019,908	1,591	303	5	-	-	1,023,051	49,192	-	49,192	1,072,243
Occupancy	341,259	786,451	623,920	480,587	304,512	88,958	489	82,500	2,708,676	506,981	558	507,539	3,216,215
Equipment rental and maintenance	62,682	45,557	159,506	103,981	40,770	84,396	-	17,084	513,976	52,495	-	52,495	566,471
Outside printing and artwork	2,774	7,156	24,664	-	-	-	-	-	34,594	95,258	1,088	96,346	130,940
Local transportation	33,322	9,006	765,623	121,757	36,380	59,723	5	2,563	1,028,379	27,761	31	27,792	1,056,171
Educational conferences and agency meetings	33,955	18,050	47,107	13,726	30,615	27,745	-	32,160	203,358	86,591	-	86,591	289,949
Subscriptions and reference publications	-	99	-	-	-	-	-	-	99	2,908	-	2,908	3,007
Special assistance to individuals	5,183	5,797	7,635,397	1,350,165	39,452	16,789	-	154,526	9,207,309	-	-	-	9,207,309
Membership dues	8,346	146	27,293	139	5,372	9,464	-	85	50,845	30,704	-	30,704	81,549
Miscellaneous	3,959	1,285	4,052	5,203	187,481	1,294	-	1,268	204,542	76,964	11,462	88,426	292,968
Bad debt expense	1,594	-	15,701	499,157	11,876	5,352	3,092	-	536,772	-	-	-	536,772
Depreciation	11,663	9,878	158,293	58,998	61,901	6,524	-	2,136	309,393	18,626	-	18,626	328,019
	4,878,261	3,564,890	13,410,302	3,220,261	1,190,366	535,981	7,868	466,334	27,274,263	1,867,050	523,701	2,390,751	29,665,014
Total functional expenses	\$ 7,361,892	\$ 6,134,895	\$ 17,378,490	\$ 7,089,278	\$ 3,714,280	\$ 3,075,544	\$ 55,111	\$ 1,214,149	\$ 46,023,639	\$ 5,494,313	\$ 582,072	\$ 6,076,385	\$ 52,100,024

Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services								Support Services				Total
	Child Day Care Services - Head Start	Counseling	Employment	Foster Family Care	Residential Services - ICFDD	Residential Services - CILA	Home-based Services	Educational Services	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 2,132,607	\$ 1,612,407	\$ 2,557,251	\$ 2,820,355	\$ 1,982,561	\$ 1,859,682	\$ 44,814	\$ 513,016	\$ 13,522,693	\$ 3,336,040	\$ 199,945	\$ 3,535,985	\$ 17,058,678
Employee benefits	322,628	202,575	403,600	391,793	302,223	222,200	8,905	71,116	1,925,040	397,586	503	398,089	2,323,129
Payroll taxes	201,247	150,324	236,881	267,174	206,925	199,106	4,675	45,170	1,311,502	231,782	719	232,501	1,544,003
Total salaries and related expenses	2,656,482	1,965,306	3,197,732	3,479,322	2,491,709	2,280,988	58,394	629,302	16,759,235	3,965,408	201,167	4,166,575	20,925,810
Professional fees -													
Contract services	3,888,248	347,477	1,145,696	471,835	182,114	55,857	2,690	40,997	6,134,914	551,935	223,512	775,447	6,910,361
Supplies	106,277	8,072	1,337,701	60,334	294,986	74,957	447	66,775	1,949,549	119,544	689	120,233	2,069,782
Telephone	70,662	91,298	118,778	53,794	31,378	41,870	128	27,175	435,083	136,427	1,165	137,592	572,675
Postage and shipping	358	244	987,347	2,916	1,098	173	-	1,391	993,527	44,007	-	44,007	1,037,534
Occupancy	598,796	134,918	536,350	357,915	414,813	78,797	545	64,337	2,186,471	498,092	186	498,278	2,684,749
Equipment rental and maintenance	31,130	16,955	141,123	53,679	26,227	32,887	-	28,007	330,008	52,190	-	52,190	382,198
Outside printing and artwork	3,813	3,709	35,650	1,103	7	10	-	3,664	47,956	16,409	98	16,507	64,463
Local transportation	5,729	789	677,206	92,814	20,513	58,248	3	692	855,994	10,387	8	10,395	866,389
Educational conferences and agency meetings	17,223	3,022	22,988	12,655	6,483	4,058	-	9,265	75,694	55,512	-	55,512	131,206
Subscriptions and reference publications	-	-	-	856	-	-	-	-	856	7,448	-	7,448	8,304
Special assistance to individuals	321	4,636	7,284,314	1,262,712	33,389	23,347	-	120,031	8,728,750	-	-	-	8,728,750
Membership dues	10,429	9,283	10,744	1,214	11,249	17,997	-	-	60,916	14,371	-	14,371	75,287
Miscellaneous	15,054	1,144	4,604	654	221,583	3,103	-	527	246,669	65,251	4,082	69,333	316,002
Bad debt expense	-	1,188,983	73,479	107,590	20,879	55	1,244	-	1,392,230	19,549	-	19,549	1,411,779
Depreciation	12,989	16,231	153,397	65,341	62,475	6,625	-	3,571	320,629	23,896	-	23,896	344,525
Subtotal	4,761,029	1,826,761	12,529,377	2,545,412	1,327,194	397,984	5,057	366,432	23,759,246	1,615,018	229,740	1,844,758	25,604,004
Total functional expenses	\$ 7,417,511	\$ 3,792,067	\$ 15,727,109	\$ 6,024,734	\$ 3,818,903	\$ 2,678,972	\$ 63,451	\$ 995,734	\$ 40,518,481	\$ 5,580,426	\$ 430,907	\$ 6,011,333	\$ 46,529,814

Statement of Cash Flows

Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Increase in net assets	\$ 4,945,119	\$ 1,739,369
Adjustments to reconcile increase in net assets to net cash, cash equivalents, and restricted cash from operating activities:		
Realized and change in unrealized (gain) loss on investments	(128,294)	243,578
Bad debt expense	536,772	1,411,779
Depreciation	328,019	344,525
Net periodic benefit cost	258,947	45,289
Pension-related change other than periodic pension expense	(4,088,601)	1,506,969
Gain on sale of property	-	(7,296)
Paycheck Protection Program loan forgiveness	-	(4,428,600)
Changes in operating assets and liabilities that (used) provided cash, cash equivalents, and restricted cash:		
Accounts receivable	(3,066,253)	(1,211,433)
Change in advances/due to affiliates	(53,218)	2,731
Other receivables	(173,115)	(14,457)
Other assets	(247,308)	(82,082)
Accounts payable and accrued expenses	620,896	235,072
Accrued wages and related expenses	(1,096,986)	1,028,206
Settlements payable and other liabilities	688,847	1,249,477
Deferred revenue	(90,332)	(307,626)
Pension benefit obligation	(900,000)	(900,000)
Net cash, cash equivalents, and restricted cash (used in) provided by operating activities	(2,465,507)	855,501
Cash Flows from Investing Activities		
Purchase of property and equipment	(294,231)	(253,688)
Proceeds from disposition of property and equipment	-	7,296
Purchases of investments	(2,009,904)	(71,387)
Net cash, cash equivalents, and restricted cash used in investing activities	(2,304,135)	(317,779)
Cash Flows Used in Financing Activities - Repayment of mortgage notes	(134,798)	(122,854)
Net (Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash	(4,904,440)	414,868
Cash, Cash Equivalents, and Restricted Cash - Beginning of year	7,805,559	7,390,691
Cash, Cash Equivalents, and Restricted Cash - End of year	\$ 2,901,119	\$ 7,805,559
Statement of Financial Position Classification of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	\$ 2,109,872	\$ 6,970,466
Funds held in trust	503,116	552,058
Deposits held in escrow	288,131	283,035
Total cash, cash equivalents, and restricted cash	\$ 2,901,119	\$ 7,805,559
Supplemental Cash Flow Information - Cash paid for interest	\$ 35,915	\$ 35,335

Ada S. McKinley Community Services, Inc. and
Subsidiary

Federal Awards Supplemental Information
June 30, 2023

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Plante & Moran, PLLC
P.O. Box 307
3000 Town Center, Suite 100
Southfield, MI 48075
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

We have audited the consolidated financial statements of Ada S. McKinley Community Services, Inc. and Subsidiary as of and for the year ended June 30, 2023 and have issued our report thereon dated December 6, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to December 6, 2023.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

May 22, 2024

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to consolidated financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Ada S. McKinley Community Services, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2023 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated December 6, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

December 6, 2023



Plante & Moran, PLLC
P.O. Box 307
3000 Town Center, Suite 100
Southfield, MI 48075
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Ada S. McKinley Community Services, Inc. and Subsidiary's (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2023. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Other Matter - Federal Expenditures Not Included in the Compliance Audit

The Organization's consolidated financial statements include the operations of Ada S. McKinley Community Services, Inc. Group Homes, which expended \$839,653 in federal awards, which is not included in the Organization's schedule of expenditures of federal awards during the year ended June 30, 2023. Our compliance audit, described in *Opinion on Each Major Federal Program*, does not include the operations of Ada S. McKinley Community Services, Inc. Group Homes because it receives a separate financial statement audit and single audit when required by the Uniform Guidance.

To the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matter

The results of auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance, which is described in the accompanying schedule of findings and questioned costs as Finding 2023-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance finding identified in our compliance audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on it.

To the Board of Directors
Ada S. McKinley Community Services, Inc.
and Subsidiary

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

May 22, 2024

Ada S. McKinley Community Services, Inc. and Subsidiary

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal/Pass-through Grantor/Program Title	Assistance Listing Number	Pass-through Grantor's Number	Total Amount Provided to Subrecipients	Federal Expenditures
U.S. Department of Agriculture:				
Pass-through Grantor - Illinois State Board of Education - Child and Adult Care Food Program	10.558	15-016-725P-00	\$ -	\$ 11,966
U.S. Department of the Treasury:				
Pass-through Grantor - Illinois Criminal Justice Information Authority - COVID-19 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)	21.027	546002378	-	2,704,172
Pass-through Grantor - City of Chicago - Department of Public Health - COVID-19 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) - Building a Network of Trauma-Informed Centers of Care	21.027	P.O. 192909	-	282,206
Total U.S. Department of the Treasury			-	2,986,378
U.S. Department of Education:				
Direct Programs - TRIO Cluster - TRIO - Talent Search	84.044		-	140,711
Direct Programs - TRIO Cluster - TRIO - Talent Search	84.044		-	531,776
Direct Programs - TRIO Cluster - TRIO - Talent Search	84.044		-	54,781
Direct Programs - TRIO Cluster - TRIO - Talent Search	84.044		-	216,437
Total TRIO Cluster			-	943,705
Pass-through Grantor - Illinois Department of Human Services - Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	46CBF00208	-	31,370
Total U.S. Department of Education			-	975,075
U.S. Department of Health and Human Services:				
Pass-through Grantor - City of Chicago, Department of Family and Support Services:				
Head Start Cluster	93.600	P.O. 180490	-	653,823
Head Start Cluster	93.600	P.O. 227361	-	1,040,365
COVID-19 Head Start Cluster - CARES ACT	93.600	P.O. 210908	-	175,891
COVID-19 Head Start Cluster - ARP	93.600	P.O. 212956	-	102,000
COVID-19 Head Start Cluster - CRRSA	93.600	P.O. 212995	-	41,381
Total Head Start			-	2,013,460
Early Head Start	93.600	P.O. 180491	-	1,235,048
Early Head Start	93.600	P.O. 227360	-	1,628,889
COVID-19 Early Head Start - CARES ACT	93.600	P.O. 209867	-	195,320
COVID-19 Early Head Start - ARP	93.600	P.O. 212959	-	114,000
COVID-19 Early Head Start - CRRSA	93.600	P.O. 212993	-	44,154
Early Head Start - CCP	93.600	P.O. 181765	-	430,808
Early Head Start - CCP	93.600	P.O. 227362	-	471,303
COVID-19 Early Head Start - CCP - CARES ACT	93.600	P.O. 209865	-	162,800
COVID-19 Early Head Start - CCP - ARP	93.600	P.O. 212978	-	-
COVID-19 Early Head Start - CCP - CRRSA	93.600	P.O. 212997	-	24,960
Early Head Start-Expansion	93.600	P.O. 181611	-	446,918
Early Head Start-Expansion	93.600	P.O. 228709	-	572,383
COVID-19 Early Head Start-Expansion - CARES ACT	93.600	P.O. 210911	-	92,519
COVID-19 Early Head Start-Expansion - ARP	93.600	P.O. 212952	-	53,827
COVID-19 Early Head Start-Expansion - CRRSA	93.600	P.O. 216565	-	22,464
Total Early Head Start			-	5,495,393
Total Head Start Cluster			-	7,508,853
Pass-through Grantor - City of Chicago - Department of Family and Support Services CCDF Cluster - Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	P.O. 199840	-	19,538
Pass-through Grantor - Illinois Department of Human Services Social Services Block Grant - Title XX Block Grant	93.667	FCSBJ00045	-	91,337
Pass-through Grantor - Illinois Department of Healthcare and Family Services - Medicaid Cluster - Medical Assistance Program	93.778	HCBS000020	-	750,000
Total U.S. Department of Health and Human Services			-	8,369,728
Total federal expenditures			\$ -	\$ 12,343,147

See notes to schedule of expenditures of federal awards.

Ada S. McKinley Community Services, Inc. and Subsidiary

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Ada S. McKinley Community Services, Inc. and Subsidiary (the "Organization") under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of the Organization.

The Organization's consolidated financial statements include the operations of Ada S. McKinley Community Services, Inc. Group Homes. The Schedule excludes those operations because they receive a separate financial statement audit and a separate single audit, as required by the Uniform Guidance.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The pass-through entity identifying numbers are presented where available.

The Organization has elected to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Note 3 - Noncash Assistance

The Organization neither received nor disbursed federal awards in the form of nonmonetary assistance for the year ended June 30, 2023, including federal insurances.

Ada S. McKinley Community Services, Inc. and Subsidiary

Schedule of Findings and Questioned Costs

Year Ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None reported

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? X Yes _____ No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster	Opinion
93.778	Medicaid Cluster	Unmodified
93.600	Head Start Cluster	Unmodified
21.027	Coronavirus State and Local Fiscal Recovery Funds	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Audit Findings

None

Ada S. McKinley Community Services, Inc. and Subsidiary

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2023

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
2023-001	<p>Assistance Listing Number, Federal Agency, and Program Name - 93.778, U.S. Department of Health and Human Services, Medicaid Cluster - Medical Assistance Program</p> <p>Federal Award Identification Number and Year - HCBS000020, 2023</p> <p>Pass-through Entity - Illinois Department of Healthcare and Family Services</p> <p>Finding Type - Significant deficiency and material noncompliance with laws and regulations</p> <p>Repeat Finding - No</p> <p>Criteria - 2 CFR 200.400(c) The nonfederal entity, in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the federal award.</p> <p>2 CFR 200.458 Pre-award costs are allowable only to the extent that they would have been allowable if incurred after the date of the federal award and only with the written approval of the federal awarding agency.</p> <p>Condition - A duplicate expense was recorded to the program and expenses were recorded to the program prior to the period of performance</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A, see additional information within the context below</p> <p>Context - Five expenses totaling \$4,050 were recorded to the grant as pre-award expenses without written approval, and another expense of \$20,229 was recorded twice to the program.</p> <p>Cause and Effect - The Organization recorded journal entries during the year, and the process and reviews for the journal entries did not identify expenses were incurred prior to the start of the period of performance. The duplicate expense was identified but not corrected prior finalization of the SEFA.</p> <p>Recommendation - We recommend the Organization increase controls over manual adjustments to record expenses charged to grants.</p> <p>Views of Responsible Officials and Corrective Action Plan - Management acknowledges noncompliance in the current fiscal year and has taken measures to improve internal controls over compliance. Management has instituted procedures to provide a review of journal entries to reclass expenses to grant-funded programs and promptly record.</p>	None



HONORING THE LEGACY

ADA S. MCKINLEY
COMMUNITY SERVICES, INC

Administrative Office
1359 West Washington Boulevard
Chicago, IL 60607-1905
(312) 554-0600 Phone
(312) 554-2518 Fax
www.adasmckinley.org

Ada S. McKinley Community Services, Inc. and Subsidiary

June 30, 2023

Corrective Action Plan

Finding Number: 2023-001

Condition: A duplicate expense was recorded to the program and expenses were recorded to the program prior to the period of performance.

Planned Corrective Action: Management acknowledges noncompliance in the current fiscal year and has taken measures to improve internal controls over compliance. Management has instituted procedures to provide a review of journal entries to reclass expenses to grant funded programs and promptly record. As well, Finance staff have been added to oversee the accounting function for the grant.

Contact person responsible for corrective action: Mary Lawrence, Director of Financial Analysis and Special Initiatives

Anticipated Completion Date: 5/15/2024