

The Allendale Association

**Financial Statements for the
Year Ended June 30, 2010**



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The Allendale Association

Year Ended June 30, 2010

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Independent Auditor's Report

Board of Trustees
The Allendale Association
Lake Villa, Illinois

We have audited the accompanying statement of financial position of **The Allendale Association** as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Allendale's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from **The Allendale Association's** June 30, 2009 financial statements and, in our report dated December 28, 2009, we express an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **The Allendale Association** as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

December 27, 2010

The Allendale Association
Statements of Financial Position
June 30, 2010 and 2009

Assets		
	2010	2009
Cash and Cash Equivalents	\$ 4,018,305	\$ 1,187,091
Receivables		
Program service fees and grants	3,173,566	5,021,047
Outpatient clinic	21,375	15,244
Other	8,154	4,360
Less allowance for doubtful accounts	(86,227)	(86,588)
Total Receivables, Net	3,116,868	4,954,063
Prepaid Expenses and Other	208,172	242,896
Pledges Receivable	500,189	2,197,600
Investments	5,142,389	5,454,921
Property and Equipment, Net	11,110,245	8,996,986
Bond Issuance Costs, Net	95,661	101,547
Advances and Deposits	58,783	94,983
Total Assets	\$ 24,250,612	\$ 23,230,087
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,452,629	\$ 2,133,574
Note payable	3,780,000	4,010,000
Interest rate swap agreements, at fair value	276,624	147,381
Accrued pension cost	349,176	651,421
Total Liabilities	6,858,429	6,942,376
Net Assets		
Unrestricted		
Undesignated	11,651,434	8,529,381
Board-designated	4,461,062	4,188,098
Total Unrestricted	16,112,496	12,717,479
Temporarily restricted	1,109,044	3,399,589
Permanently restricted	170,643	170,643
Total Net Assets	17,392,183	16,287,711
	\$ 24,250,612	\$ 23,230,087

The accompanying notes are an integral part of the financial statements.

The Allendale Association

Statements of Activities

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Government Support					
Service fees and grants	\$ 30,057,729	\$ -	\$ -	\$ 30,057,729	\$ 29,061,294
School lunch program	207,800	-	-	207,800	190,349
Total Government Support	30,265,529	-	-	30,265,529	29,251,643
Public Support					
Contributions and special events	667,668	97,952	-	765,620	4,005,793
Grants	54,186	-	-	54,186	99,685
Total Public Support	721,854	97,952	-	819,806	4,105,478
Revenue and Gains (Losses)					
Service fees - Third party	250,490	-	-	250,490	252,126
Client and family fees	16,779	-	-	16,779	18,979
Program sales	57,298	-	-	57,298	56,664
Net realized and change in unrealized gains (losses) on investments	452,101	768	-	452,869	(1,093,984)
Investment and dividend income	123,145	5,018	-	128,163	145,865
Change in fair value of interest rate swap agreements	(129,243)	-	-	(129,243)	(147,381)
Miscellaneous	13,816	-	-	13,816	5,857
Net assets released from restrictions	2,394,283	(2,394,283)	-	-	-
Total Revenue and Gains (Losses), Net	3,178,669	(2,388,497)	-	790,172	(761,874)
Total Support and Revenue	34,166,052	(2,290,545)	-	31,875,507	32,595,247
Program Services					
Residential treatment	11,680,925	-	-	11,680,925	11,168,174
Group homes	2,641,743	-	-	2,641,743	2,813,435
Benet Lake, WI	2,061,752	-	-	2,061,752	2,039,029
Special education	8,457,199	-	-	8,457,199	8,595,287
Foster care	545,208	-	-	545,208	537,433
Transitional living	1,832,338	-	-	1,832,338	1,804,927
Independent living	444,503	-	-	444,503	541,446
Youth community services	259,832	-	-	259,832	298,951
Outpatient clinic	286,769	-	-	286,769	305,981
Total Program Services	28,210,269	-	-	28,210,269	28,104,663
Supporting Services					
Management and general	1,918,692	-	-	1,918,692	1,937,311
Fundraising	547,486	-	-	547,486	653,764
Total Supporting Services	2,466,178	-	-	2,466,178	2,591,075
Total Expenses	30,676,447	-	-	30,676,447	30,695,738
Increase in Net Assets Before Change in Pension Related Charges	3,489,605	(2,290,545)	-	1,199,060	1,899,509
Pension Related Changes Other Than Net Periodic Pension Benefit Cost	(94,588)	-	-	(94,588)	(346,084)
Increase (Decrease) in Net Assets	3,395,017	(2,290,545)	-	1,104,472	1,553,425
Net Assets, Beginning of Year	12,717,479	3,399,589	170,643	16,287,711	14,734,286
Net Assets, End of Year	\$ 16,112,496	\$ 1,109,044	\$ 170,643	\$ 17,392,183	\$ 16,287,711

The accompanying notes are an integral part of the financial statements.

The Allendale Association

Statements of Functional Expenses

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	Residential Treatment	Group Homes	Benet Lake	Special Education	Foster Care
Salaries	\$ 6,973,394	\$ 1,680,206	\$ 1,156,416	\$ 4,891,966	\$ 183,759
Employee health and retirement benefits	1,312,964	325,079	222,367	1,053,096	40,296
Payroll taxes, etc.	529,494	127,753	87,900	374,090	14,067
Total Salaries and Related Expenses	8,815,852	2,133,038	1,466,683	6,319,152	238,122
Professional fees and contract service payments	476,987	73,348	78,709	516,494	16,659
Supplies	664,779	85,039	108,786	284,824	13,018
Telecommunications	75,657	22,607	6,506	37,488	4,102
Postage and shipping	18,881	4,238	3,137	12,721	609
Occupancy	357,690	87,336	248,076	443,039	13,444
Equipment repairs, maintenance and rentals	61,703	11,013	9,384	35,937	1,588
Insurance premiums	90,280	20,264	15,001	57,928	2,912
Outside printing, artwork, etc.	8,116	1,570	1,190	4,010	186
Local transportation	139,791	42,256	16,915	53,018	16,051
Training, conferences and meetings	17,076	1,718	1,874	9,678	499
Subscriptions and reference publications	3,374	152	113	645	22
Client specific assistance	250,127	53,116	34,150	158,082	212,699
Membership and accreditation dues	21,855	4,085	6,934	21,510	1,087
Staff recruitment and marketing advertising	28,595	5,839	4,322	36,302	10,129
Interest expense and financing fees	96,154	4,332	4,125	51,975	7,181
Provision for uncollectible accounts	622	-	-	18,680	-
Miscellaneous, primarily special event fees	4,990	1,257	1,233	6,906	62
Total Expenses Before Depreciation	11,132,529	2,551,208	2,007,138	8,068,389	538,370
Depreciation	548,396	90,535	54,614	388,810	6,838
Total for the Year Ended June 30, 2010	\$ 11,680,925	\$ 2,641,743	\$ 2,061,752	\$ 8,457,199	\$ 545,208
Total for the Year Ended June 30, 2009	\$ 11,168,174	\$ 2,813,435	\$ 2,039,029	\$ 8,595,287	\$ 537,433

The accompanying notes are an integral part of the financial statements.

Transitional Living	Independent Living	Youth Community Services	Outpatient Clinic	Total Program Services	
				2010	2009
\$ 952,956	\$ 166,212	\$ 148,701	\$ 105,227	\$ 16,258,837	\$ 16,026,568
190,117	36,489	32,627	22,758	3,235,793	3,378,332
72,572	12,724	11,383	8,049	1,238,032	1,197,455
1,215,645	215,425	192,711	136,034	20,732,662	20,602,355
15,658	6,930	6,282	27,102	1,218,169	1,165,439
100,730	32,136	10,471	7,696	1,307,479	1,409,824
4,930	4,392	1,873	9,682	167,237	163,769
1,938	388	465	309	42,686	43,786
29,410	11,861	10,869	53,334	1,255,059	1,249,546
3,148	1,374	1,449	1,150	126,746	83,824
9,266	1,853	2,224	1,484	201,212	218,118
593	119	266	1,805	17,855	31,403
34,274	9,595	12,700	4,361	328,961	345,231
954	-	192	432	32,423	38,256
70	14	17	288	4,695	3,989
335,649	131,122	291	189	1,175,425	1,216,211
1,868	374	448	2,028	60,189	61,781
2,670	6,446	7,735	5,157	107,195	81,418
2,132	7,142	5,388	16,543	194,972	201,846
-	-	-	3,294	22,596	20,865
27,159	614	47	81	42,349	16,543
1,786,094	429,785	253,428	270,969	27,037,910	26,954,204
46,244	14,718	6,404	15,800	1,172,359	1,150,459
\$ 1,832,338	\$ 444,503	\$ 259,832	\$ 286,769	\$ 28,210,269	
\$ 1,804,927	\$ 541,446	\$ 298,951	\$ 305,981		\$ 28,104,663

The Allendale Association

Statements of Functional Expenses

Year Ended June 30, 2010 with Comparative Totals for the Year Ended June 30, 2009

	Total Program Services	Management and General	Fund- Raising	Total Support Services	Total Expenses (Memorandum Only)	
					2010	2009
Salaries	\$ 16,258,837	\$ 1,146,479	\$ 261,593	\$ 1,408,072	\$ 17,666,909	\$ 17,413,969
Employee health and retirement benefits	3,235,793	260,390	56,978	317,368	3,553,161	3,713,456
Payroll taxes, etc.	1,238,032	87,943	20,017	107,960	1,345,992	1,301,575
Total Salaries and Related Expenses	20,732,662	1,494,812	338,588	1,833,400	22,566,062	22,429,000
Professional fees and contract service payments	1,218,169	199,306	75,253	274,559	1,492,728	1,477,081
Supplies	1,307,479	75,743	10,860	86,603	1,394,082	1,517,737
Telecommunications	167,237	9,508	3,684	13,192	180,429	176,896
Postage and shipping	42,686	4,676	(1,454)	3,222	45,908	49,827
Occupancy	1,255,059	18,853	1,869	20,722	1,275,781	1,272,719
Equipment repairs, maintenance and rentals	126,746	-	-	-	126,746	83,824
Insurance premiums	201,212	10,590	1,853	12,443	213,655	231,882
Outside printing, artwork, etc.	17,855	-	11,680	11,680	29,535	47,590
Local transportation	328,961	5,887	1,993	7,880	336,841	355,891
Training, conferences and meetings	32,423	-	350	350	32,773	40,681
Subscriptions and reference publications	4,695	505	1,621	2,126	6,821	7,635
Client specific assistance	1,175,425	-	-	-	1,175,425	1,216,214
Membership and accreditation dues	60,189	570	75	645	60,834	62,196
Staff recruitment and marketing advertising	107,195	8,508	786	9,294	116,489	90,506
Interest expense and financing fees	194,972	414	3,227	3,641	198,613	206,580
Provision for uncollectible accounts	22,596	-	-	-	22,596	20,865
Miscellaneous, primarily special event fees	42,349	(5,826)	90,949	85,123	127,472	186,145
Total Expenses Before Depreciation	27,037,910	1,823,546	541,334	2,364,880	29,402,790	29,473,269
Depreciation	1,172,359	95,146	6,152	101,298	1,273,657	1,222,469
Total for the Year Ended June 30, 2010	\$ 28,210,269	\$ 1,918,692	\$ 547,486	\$ 2,466,178	\$ 30,676,447	
Total for the Year Ended June 30, 2009	\$ 28,104,663	\$ 1,937,311	\$ 653,764	\$ 2,591,075		\$ 30,695,738

The accompanying notes are an integral part of the financial statements.

The Allendale Association

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 1,104,472	\$ 1,553,425
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,273,657	1,222,469
Bond cost amortization	5,886	5,887
Gain on sale of equipment	(3,010)	(1,180)
Net realized and unrealized (gains) losses on investments	(452,869)	1,093,984
Change in fair value of interest rate swap agreements	129,243	147,381
Provision for losses on receivables	22,596	20,865
(Increase) decrease in		
Accounts receivable	1,814,599	(1,471,817)
Pledges receivable	1,697,411	(2,172,600)
Prepaid expenses and other assets	34,724	(30,983)
Advances and deposits	36,200	(3,004)
Increase (decrease) in		
Accrued pension cost	(302,245)	383,977
Accounts payable and accrued expenses	101,501	170,947
Total Adjustments	4,357,693	(634,074)
Net Cash Provided by Operating Activities	5,462,165	919,351
Cash Flows from Investing Activities		
Proceeds from sale of investments	3,159,694	3,129,009
Purchases of investments	(2,394,293)	(3,824,524)
Capital expenditures	(3,169,362)	(1,023,912)
Proceeds from sale of equipment	3,010	1,180
Net Cash Used in Investing Activities	(2,400,951)	(1,718,247)
Net Cash Used in Financing Activities - Principal payment on note payable	(230,000)	(215,000)
Net Increase (Decrease) in Cash and Cash Equivalents	2,831,214	(1,013,896)
Cash and Cash Equivalents, Beginning of Year	1,187,091	2,200,987
Cash and Cash Equivalents, End of Year	\$ 4,018,305	\$ 1,187,091

The accompanying notes are an integral part of the financial statements.

The Allendale Association

Notes to Financial Statements

Year Ended June 30, 2010

Note 1 - Industry Operations

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of Allendale have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The separate classes of net assets are defined as follows:

Unrestricted - Amounts that are not subject to donor-imposed stipulations.

Unrestricted (Board-Designated) - Amounts that the Board has set aside for future operating needs of Allendale. These amounts are unrestricted as the Board may change the designated use of these assets.

Temporarily Restricted - Amounts that have been limited by donors to a specific time period or purpose.

Permanently Restricted (Endowment) - Amounts that are restricted by donors to be maintained by Allendale in perpetuity. The donors of these resources have permitted Allendale to use all of the income earned, including capital appreciation, for unrestricted or temporarily restricted purposes.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAPUSA). Accordingly, such information should be read in conjunction with Allendale's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Investments

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

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are carried at cost and depreciated over the estimated useful lives of the assets using the straight-line method. In the case of donations, cost represents market or appraised values at the date of donation. Generally, items with a useful life of one year or more and value of more than \$1,000 are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is allocated between program and supporting services in the statements of activities.

	<u>Years</u>
Land and improvements	10-15
Building and improvements	5-25
Furniture and equipment	3-10
Vehicles	3-7

Bond Issuance Costs

Bond issuance costs are amortized using the straight-line method over 25 years.

Revenue and Public Support

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

Contributed Materials and Services

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

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

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

Allendale's accounts receivable balance for program service fees and grants as of June 30, 2010 and 2009 is primarily from State of Illinois agencies.

Cash Equivalents

For purposes of the statements of cash flows, Allendale considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

Endowment

GAAPUSA addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA was enacted in Illinois effective June 30, 2009. A key component of UPMIFA is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

Allocations

Allendale uses a cost allocation formula to charge indirect costs to programs. The formula is the result of a number of cost allocation procedures based on the applicable functional expense. Factors used for allocating costs include full-time equivalent staff, square footage of space utilized and number of telephones utilized. Certain expenses included in program services include these cost allocation procedures.

Financial Instruments

In March 2008, the FASB issued guidance on disclosures in the Derivatives and Hedging Topic of GAAPUSA. This guidance amends and expands the previous disclosure requirements for derivative instruments and hedging activities to provide more qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments are accounted for and how derivative instruments affect an entity's financial position, financial performance and cash flows. Allendale adopted the disclosures requirements as of July 1, 2009 on a prospective basis. The adoption had no impact on Allendale's financial statements, other than the additional disclosures.

Allendale's derivative is recognized as a liability on the balance sheets and measured at fair value. Any change in fair value is recognized immediately in the statements of activities unless the derivatives qualify as hedges. Allendale has not designated its derivative as a hedge.

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

Tax Status

Allendale has received a determination letter from the Internal Revenue Service, which states that it is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been reflected in the financial statements. Under comparable state law, Allendale is also tax exempt.

Allendale's adoption of the Income Tax Topic regarding uncertain tax positions of GAAPUSA on July 1, 2009 had no effect on its financial position as management believes Allendale has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit tax status. Allendale would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. Allendale is no longer subject to examination by federal, state or local tax authorities for periods before 2007. Prior to adoption of the Income Tax Topic, Allendale accounted for tax positions under a contingent loss model, requiring recognition of a tax liability when it was both (1) probable that it had been incurred as of year-end and (2) the amount could be reasonably estimated

Fair Value Measurements

In September 2009, the Financial Accounting Standards Board issued new guidance regarding the use of net asset value per share provided by the investee as a practical expedient to estimate the fair value of alternative investments. Allendale's adoption of this new guidance had no material effect on its financial statements.

During 2009, Allendale adopted the new GAAPUSA guidance on fair value measurements and disclosures for all financial assets and liabilities carried at fair value. The new guidance defined fair value, established a framework for measuring fair value and expanded disclosures about fair value measurements. In 2010, Allendale adopted the guidance for nonrecurring fair value measurements of nonfinancial assets and liabilities, which guidance had been previously deferred. The adoption of this guidance had no material effect on Allendale's financial condition or results of operations.

Management Estimates

The preparation of financial statements in conformity with GAAPUSA requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Allendale has evaluated subsequent events through December 27, 2010, the date the 2010 financial statements are available to be issued and December 28, 2009 with respect to the 2009 comparative financial statements.

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 3 - Pledges Receivable

Amounts due from donors for unpaid pledges of contributions as of June 30, 2010 are expected to be collected as follows:

Within one year	\$ 326,269
Within two years	139,920
Within three to five years	9,000
Later	<u>25,000</u>
	<u><u>\$ 500,189</u></u>

Note 4 - Fair Value

GAAPUSA defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAPUSA describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. The standard does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Financial assets and liabilities carried at fair value are classified in one of the following three categories based on the inputs to the valuation technique used:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Allendale does not currently utilize any Level 3 inputs.

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 4 - Fair Value (Continued)

The following tables sets forth by level, within the fair value hierarchy, Allendale's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2010 and 2009. As required by GAAPUSA, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Allendale's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

Description	Fair Values as of June 30, 2010	Recurring Fair Value Measurements as of Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money Market Funds	\$ 885,316	\$ 885,316	\$ -	\$ -
Corporate Bonds	263,583	-	263,583	-
U.S. Government Treasuries	266,803	266,803	-	-
U.S. Government Agency Bonds	593,691	-	593,691	-
Common Stocks	2,894,827	2,894,827	-	-
Preferred Stocks	102,890	102,890	-	-
Equity Mutual Funds	14,346	14,346	-	-
Commodities	91,089	91,089	-	-
Real Estate	29,844	29,844	-	-
	<u>\$ 5,142,389</u>	<u>\$ 4,285,115</u>	<u>\$ 857,274</u>	<u>\$ -</u>
Liabilities				
Interest Rate Swap Liability	<u>\$ (276,624)</u>	<u>\$ -</u>	<u>\$ (276,624)</u>	<u>\$ -</u>

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 4 - Fair Value (Continued)

<u>Description</u>	Fair Values as of June 30, 2009	Recurring Fair Value Measurements as of Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money Market Funds	\$ 1,300,432	\$ 1,300,432	\$ -	\$ -
Corporate Bonds	550,955	-	550,955	-
U.S. Government Treasuries	213,169	213,169	-	-
U.S. Government Agency Bonds	640,068	-	640,068	-
Common Stocks	2,617,841	2,617,841	-	-
Preferred Stocks	117,815	117,815	-	-
Equity Mutual Funds	14,641	14,641	-	-
	<u>\$ 5,454,921</u>	<u>\$ 4,263,898</u>	<u>\$ 1,191,023</u>	<u>\$ -</u>
Liabilities				
Interest Rate Swap Liability	<u>\$ (147,381)</u>	<u>\$ -</u>	<u>\$ (147,381)</u>	<u>\$ -</u>

Level 1 Inputs

Estimated fair values for Allendale's money market funds, U.S. government treasuries, common and preferred stocks and equity mutual funds were based on quoted market prices.

Level 2 Inputs

Estimated fair values of corporate bonds and U.S. government agency bonds are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively.

The derivative instrument consists solely of an interest rate swap that is not traded on an exchange and is recorded at fair value based on a variety of observable inputs, including contractual terms, interest rate curves, yield curves, measure of volatility and correlations of such inputs. Allendale's derivative instrument is classified as Level 2 in the fair value hierarchy.

The Allendale Association

Notes to Financial Statements

Year Ended June 30, 2010

Note 5 - Property and Equipment

Major classes of property and equipment as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 1,487,149	\$ 1,268,894
Building and improvements	20,167,122	17,190,909
Furniture and equipment	5,587,924	4,750,754
Vehicles	977,396	906,328
Assets under construction	<u>77,353</u>	<u>793,144</u>
	28,296,944	24,910,029
Accumulated depreciation and amortization	<u>17,186,699</u>	<u>15,913,043</u>
	<u><u>\$ 11,110,245</u></u>	<u><u>\$ 8,996,986</u></u>

Note 6 - Line of Credit

Allendale has an unsecured revolving line-of-credit agreement totaling \$1,500,000, with interest at a variable interest rate as determined by the bank's prime interest rate index, not to fall below 4.50% and expiring in February 2011. There were no outstanding borrowings as of June 30, 2010 and 2009.

Note 7 - Note Payable

On October 17, 2001, the Village of Lake Villa (the Village) issued \$5,200,000 in variable rate demand revenue bonds. The proceeds of the bonds were then loaned to Allendale to finance construction of a residential treatment unit and a community outpatient counseling center with a training facility, and to refinance outstanding debt. In accordance with the above, Allendale issued an irrevocable letter of credit in the amount of \$5,264,100 supporting the payment of the loan. The letter of credit was issued by Bank of America, N.A. and expires on October 15, 2011.

The loan agreement requires variable annual principal payments that began in October 2003 and continue through October 2026. Interest is payable monthly and began in November 2001. The loan bears interest at the lowest rate of interest, which will permit the bonds to be remarketed at par, not to exceed the lesser of 15% or the letter of credit interest rate. The interest rate is determined weekly (0.31% and 0.37% as of June 30, 2010 and 2009, respectively). Based on the weekly remarketing of the interest rate, the carrying value of the debt approximates its estimated fair value of \$3,780,000 and \$4,010,000 for the years ended June 30, 2010 and 2009, respectively. The loan agreement requires Allendale to maintain certain ratios and imposes certain restrictions on Allendale. Allendale was in compliance with these covenants as of June 30, 2010 and 2009.

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 7 - Note Payable (Continued)

Future principal payments by fiscal year for the bonds and notes payable outstanding as of June 30, 2010 are as follows:

Year Ending June 30:	
2011	\$ 240,000
2012	250,000
2013	260,000
2014	270,000
Thereafter	<u>2,760,000</u>
Total	<u><u>\$ 3,780,000</u></u>

Note 8 - Derivatives - Interest Rate Swaps

On July 15, 2008, Allendale began utilizing a derivative financial instrument to reduce its exposure to market risks from changes in interest rates on its revenue bonds. (See Note 7.) The instrument used to mitigate these risks is an interest rate swap. Any change in the fair value of the interest rate swap agreement is recognized in the statements of activities.

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

Allendale had an interest rate swap with a notional amount of \$3,780,000 and \$4,010,000 as of June 30, 2010 and 2009, respectively. The notional amount does not represent a measure of exposure to Allendale. The interest rate swap matures on July 16, 2018 and has a fixed rate of 3.39%. Allendale will pay the counterparty interest at a fixed rate as noted, and the counterparty will pay Allendale interest at a variable rate equal to the USD-SIFMA Municipal Swap Index rate.

As of June 30, 2010 and 2009, the fair value of Allendale's interest rate swap (Note 4) resulted in an unrealized loss of \$129,243 and \$147,381, respectively, and is recorded as a change in unrestricted net assets. The fair value of the swap was a liability of \$276,624 and \$147,381 as of June 30, 2010 and 2009, respectively.

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 8 - Derivatives - Interest Rate Swaps (Continued)

The following table presents the amounts and locations of the amounts relating to Allendale's interest rate swap in the financial statements as of and for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Statement of Financial Position Information		
Location on statement of fair value of liability		
Interest rate swap liability	\$ 276,624	\$ 147,381
Statement of Activities Information		
Change in fair value of interest swap agreements	(129,243)	(147,381)
Statements of Functional Expenses Information		
Interest expense and financing fees	198,613	206,580

Note 9 - Employee Retirement Plans

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

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

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 9 - Employee Retirement Plans (Continued)

The following table sets forth the plan's funded status and amounts recognized in the statements of financial position as of June 30:

	<u>2010</u>	<u>2009</u>
Change in projected and accumulated benefit obligation		
Benefit obligation as of July 1	\$ 4,596,745	\$ 4,974,652
Service cost	44,816	31,326
Interest cost	261,734	254,983
Assumption changes	187,357	(419,186)
Actuarial loss	80,176	32,587
Benefit payments	(134,542)	(265,017)
Expense charges	(44,816)	(12,600)
	<u>\$ 4,991,470</u>	<u>\$ 4,596,745</u>
Change in fair value of plan assets		
Beginning of year	\$ 3,945,324	\$ 4,707,208
Actual return on plan assets	376,328	(484,267)
Employer contributions	500,000	-
Benefits paid including expense charges	(179,358)	(277,617)
	<u>\$ 4,642,294</u>	<u>\$ 3,945,324</u>
Accrued benefit cost recognized in the statements of financial position	<u>\$ (349,176)</u>	<u>\$ (651,421)</u>

The components of net periodic benefit cost are as follows:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 44,816	\$ 31,326
Interest cost	261,734	254,983
Expected return on plan assets	(246,339)	(273,481)
Recognized actuarial loss	42,956	25,065
	<u>\$ 103,167</u>	<u>\$ 37,893</u>

The Allendale Association

Notes to Financial Statements

Year Ended June 30, 2010

Note 9 - Employee Retirement Plans (Continued)

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

	<u>2010</u>	<u>2009</u>
Net actuarial loss	<u>\$ 1,494,572</u>	<u>\$ 1,399,984</u>

The amounts estimated to be reclassified as net periodic benefit cost during fiscal year 2011 are as follows:

Net actuarial loss	<u>\$ 48,019</u>
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The following are the weighted-average assumptions used to determine benefit obligations and net periodic cost for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Discount rate		
Pre-retirement	5.30%	5.75%
Post-retirement	6.50%	6.50%
Net periodic benefit cost	5.75%	5.25%
Rate of compensation increase	N/A	N/A
Long-term rate of return on plan assets	6.00%	6.00%

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

The assumed pre-retirement and post-retirement Mortality Tables were changed in 2010 to use 2010 Mortality Tables. In 2009, the 2009 Mortality Tables were used.

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 9 - Employee Retirement Plans (Continued)

Plan Assets

The pension plan's weighted-average asset allocations as of June 30, 2010 and 2009 by asset category are as follows:

	<u>2010</u>	<u>2009</u>
Equity securities	49.20%	51.19%
Insurance company's general account	50.80%	48.81%

Allendale's target asset allocations for the pension plans as of June 30, 2010 and 2009 by asset category are as follows:

	<u>2010</u>	<u>2009</u>
Equity securities	50.00%	50.00%
Insurance company's general account	50.00%	50.00%

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

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

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

There were employer contributions in the amount of \$500,000 for the year ended June 30, 2010. There were no employer contributions for the year ended June 30, 2009.

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 9 - Employee Retirement Plans (Continued)

Estimated Future Benefit Payments

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

	Pension Benefits
2011	\$ 306,000
2012	194,000
2013	419,000
2014	307,000
2015	92,000
Years 2016-2020	1,211,000

Additionally, Allendale has accrued approximately \$48,050 and \$52,106, including interest, as of June 30, 2010 and 2009, respectively, payable to the spouse of a former employee as previously authorized by the Board of Trustees.

Defined Contribution Plan

Allendale also has a defined contribution retirement plan, which covers substantially all of its employees with one year of continuous service who meet the age requirements of the plan. Allendale amended the plan, effective May 1, 2005, to make matching contributions of 100% up to 5% and 6% as of June 30, 2010 and 2009, respectively, of participants' salaries, which vest over four years. The matching contributions were approximately \$462,407 and \$529,000 for the years ended June 30, 2010 and 2009, respectively.

Note 10 - Leases

Allendale has entered into various agreements to lease facilities with monthly payments ranging from approximately \$1,800 to \$11,200. These leases are at various locations and mature from 2010 through 2014.

Future annual minimum lease payments are as follows:

Year Ending June 30:	
2011	\$ 373,563
2012	264,046
2013	134,870
2014	134,870
Total Minimum Payments Required	\$ 907,349

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 10 - Leases (Continued)

Rent expense charged to operations amounted to \$402,018 and \$389,286 for the years ended June 30, 2010 and 2009, respectively.

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Building/equipment renovations	\$ 25,000	\$ 36,179
Alumni scholarship funds	12,404	20,132
Individual pledge of life insurance	25,000	25,000
Charitable gift annuity	10,216	8,786
Capital campaign	<u>1,036,424</u>	<u>3,309,492</u>
Total	<u><u>\$ 1,109,044</u></u>	<u><u>\$ 3,399,589</u></u>

Allendale has launched a capital campaign with the goal of financing the construction of four new buildings: a cafeteria, gymnasium, clinical services building and facilities/maintenance operations support center. Donations/pledges received for the campaign are considered temporarily restricted assets until the amounts are spent or the assets are placed in service. As of June 30, 2010, the cafeteria was placed in service resulting in a release of approximately \$2,400,000 from temporarily restricted assets.

Note 12 - Endowments

Endowment

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

Allendale's endowment consists of three individual funds and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on existences or absences of donor-imposed restrictions.

The Allendale Association

Notes to Financial Statements

Year Ended June 30, 2010

Note 12 - Endowments (Continued)

Interpretation of Relevant Law

The Board of Trustees of Allendale interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Allendale classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Allendale. In accordance with UPMIFA, Allendale considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Return Objectives and Risk Parameters

Allendale has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that Allendale must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment's equity assets are invested in a manner in order to achieve a cumulative return on investment percentage which exceeds the Standard & Poor's 500 Index by at least 300 basis points over a three-year period. Fixed income assets are invested with the objective to achieve a cumulative return on investment percentage that exceeds the Lehman Aggregate Index by at least 150 basis points over a three-year period. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Allendale relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Allendale targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 12 - Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy

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

Endowment net asset composition by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 170,643	\$ 170,643
Board-designated endowment funds	<u>4,461,062</u>	<u>-</u>	<u>-</u>	<u>4,461,062</u>
Total endowment funds	<u>\$ 4,461,062</u>	<u>\$ -</u>	<u>\$ 170,643</u>	<u>\$ 4,631,705</u>

Changes in endowment net assets for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,188,098	\$ -	\$ 170,643	\$ 4,358,741
Contributions	4,405	-	-	4,405
Net investment return	535,635	21,136	-	556,771
Appropriation of endowment	<u>(267,076)</u>	<u>(21,136)</u>	<u>-</u>	<u>(288,212)</u>
Endowment net assets, end of year	<u>\$ 4,461,062</u>	<u>\$ -</u>	<u>\$ 170,643</u>	<u>\$ 4,631,705</u>

The Allendale Association
Notes to Financial Statements
Year Ended June 30, 2010

Note 12 - Endowments (Continued)

Endowment net asset composition by type of fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 170,643	\$ 170,643
Board-designated endowment funds	<u>4,188,098</u>	-	-	<u>4,188,098</u>
Total endowment funds	<u><u>\$ 4,188,098</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 170,643</u></u>	<u><u>\$ 4,358,741</u></u>

Changes in endowment net assets for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,290,080	\$ -	\$ 170,643	\$ 5,460,723
Contributions	174,391	-	-	174,391
Net investment return	(958,499)	(39,054)	-	(997,553)
Appropriation of endowment	<u>(317,874)</u>	<u>39,054</u>	-	<u>(278,820)</u>
Endowment net assets, end of year	<u><u>\$ 4,188,098</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 170,643</u></u>	<u><u>\$ 4,358,741</u></u>

Note 13 - Supplement Cash Flow Information

As of June 30, 2010, Allendale purchased fixed assets in the amount of \$217,554, which was included in accounts payable.