Gorfine Schiller Gardyn
Certified Public Accountants and Consultants
GSG

Chimes
Empowering People,
Enriching Lives

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES

CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
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INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Officers
Chimes International Limited and Related Entities
Baltimore, Maryland

Report on the Consolidated and Combined Financial Statements

We have audited the accompanying consolidated and combined financial statements of Chimes International Limited and Related Entities, which comprise the consolidated and combined statements of financial position as of June 30, 2016 and 2015, and the related consolidated and combined statements of activities and cash flows for the years then ended, the related notes to the consolidated and combined financial statements, and the consolidated and combined statement of functional expenses for the year ended June 30, 2016.

Management's Responsibility for the Consolidated and Combined Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Chimes International Limited and Related Entities as of June 30, 2016 and 2015, and the changes in their net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the June 30, 2015, consolidated and combined financial statements, and we expressed an unmodified audit opinion on those audited consolidated and combined financial statements in our report dated November 11, 2015. In our opinion, the summarized comparative information presented on the consolidated and combined statement of functional expenses as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated and combined financial statements from which it has been derived.

Gorfine, Schiller + Gardyn, P.A.

November 16, 2016
Owings Mills, Maryland

CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 17,101,542	$ 7,579,319
Cash - deferred compensation plan	74,991	64,742
Accounts receivable, net of allowance for doubtful accounts	17,457,882	25,690,813
Pledges receivable, net of allowance for doubtful accounts	58,640	93,274
Prepaid expenses	1,264,440	1,103,245
Current portion of loans receivable	30,000	75,000
Investments, current	4,484,128	5,403,969
Total current assets	40,471,623	40,010,362
NONCURRENT ASSETS		
Restricted cash	505,428	311,740
Land, buildings and equipment, net of accumulated depreciation	33,757,966	35,144,322
Intangible assets, net of accumulated amortization	202,360	254,279
Long-term pledges receivable, net of allowance for doubtful accounts	83,289	89,434
Investments, long-term	1,222,300	1,033,717
Other noncurrent assets	477,543	567,621
Total noncurrent assets	36,248,886	37,401,113
TOTAL ASSETS	$ 76,720,509	$ 77,411,475

The accompanying notes are an integral part of these consolidated financial statements.

	2016	2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 458,818	$ 444,953
Short-term borrowings	835,978	3,846,788
Accounts payable	4,869,157	4,826,266
Accrued expenses and other liabilities	17,366,162	17,169,776
Deferred revenue and refundable advances	1,223,026	673,988
Deferred rent	165,787	143,962
Due to third-party payors	1,758,459	1,828,229
Total current liabilities	26,677,387	28,933,962
LONG-TERM LIABILITIES		
Bonds payable	1,824,396	1,917,608
Mortgages and notes payable	8,356,562	8,728,514
Interest rate swap	189,298	122,759
Deferred compensation and postemployment benefit obligation	-	726,987
Total long-term liabilities, net of current maturities	10,370,256	11,495,868
Total liabilities	37,047,643	40,429,830
NET ASSETS		
Unrestricted		
Undesignated	38,126,643	35,414,819
Board designated	14,053	14,112
	38,140,696	35,428,931
Temporarily restricted	184,401	185,175
Permanently restricted	1,347,769	1,367,539
Total net assets	39,672,866	36,981,645
TOTAL LIABILITIES AND NET ASSETS	$ 76,720,509	$ 77,411,475

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED AND COMBINED STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Mental health services	$ 30,850,797	$ -	$ -	$ 30,850,797
Developmental disabilities services	80,146,335	-	-	80,146,335
Employment contractual services	77,792,301	-	-	77,792,301
Management fees	303,535	-	-	303,535
Donations and grants	324,696	-	-	324,696
Miscellaneous	355,486	-	-	355,486
Fundraising income, net of fundraising expenses of $425,234	161,431	-	-	161,431
Total revenue and other support	189,934,581	-	-	189,934,581
EXPENSES				
Program services				
Mental health services	25,514,757	-	-	25,514,757
Developmental disabilities services	71,538,196	-	-	71,538,196
Employment contractual services	66,853,871	-	-	66,853,871
Grants	101,925	-	-	101,925
Total program services	164,008,749	-	-	164,008,749
Supporting services				
Administrative expenses	23,120,203	-	-	23,120,203
Fundraising expenses	165,806	-	-	165,806
Total supporting services	23,286,009	-	-	23,286,009
Total expenses	187,294,758	-	-	187,294,758
OPERATING INCOME	2,639,823	-	-	2,639,823
OTHER INCOME (LOSS)				
Investment income - net	112,179	(774)	(19,770)	91,635
Loss on interest rate swap	(66,539)	-	-	(66,539)
Gain on sale of assets	26,302	-	-	26,302
Net other income (loss)	71,942	(774)	(19,770)	51,398
CHANGES IN NET ASSETS	2,711,765	(774)	(19,770)	2,691,221
NET ASSETS, Beginning of year	35,428,931	185,175	1,367,539	36,981,645
NET ASSETS, End of year	$ 38,140,696	$ 184,401	$ 1,347,769	$ 39,672,866

The accompanying notes are an integral part of these consolidated financial statements.

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED AND COMBINED STATEMENTS OF ACTIVITIES - CONTINUED
For the Year Ended June 30, 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Mental health services	$ 29,642,874	$ -	$ -	$ 29,642,874
Developmental disabilities services	79,635,694	-	-	79,635,694
Employment contractual services	77,797,320	-	-	77,797,320
Management fees	275,339	-	-	275,339
Donations and grants	441,136	-	-	441,136
Miscellaneous	548,527	-	-	548,527
Fundraising income, net of fundraising expenses of $354,651	360,890	-	-	360,890
Total revenue and other support	188,701,780	-	-	188,701,780
EXPENSES				
Program services				
Mental health services	24,252,272	-	-	24,252,272
Developmental disabilities services	71,083,007	-	-	71,083,007
Employment contractual services	67,258,187	-	-	67,258,187
Grants	196,172	-	-	196,172
Total program services	162,789,638	-	-	162,789,638
Supporting services				
Administrative expenses	22,781,412	-	-	22,781,412
Fundraising expenses	404,906	-	-	404,906
Total supporting services	23,186,318	-	-	23,186,318
Total expenses	185,975,956	-	-	185,975,956
OPERATING INCOME	2,725,824	-	-	2,725,824
OTHER INCOME (EXPENSE)				
Investment income - net	214,831	(8,669)	(142,098)	64,064
Loss on interest rate swap	(122,759)	-	-	(122,759)
Gain on sale of assets	56,943	-	-	56,943
Net other income (loss)	149,015	(8,669)	(142,098)	(1,752)
CHANGES IN NET ASSETS BEFORE TRANSFER OF NET ASSETS	2,874,839	(8,669)	(142,098)	2,724,072
Gain on acquisition of Chester-County Council on Addictive Diseases, Inc.	-	-	-	158,593
CHANGES IN NET ASSETS	2,874,839	(8,669)	(142,098)	2,882,665
NET ASSETS, Beginning of year	32,395,499	193,844	1,509,637	34,098,980
NET ASSETS, End of year	$ 35,270,338	$ 185,175	$ 1,367,539	$ 36,981,645

The accompanying notes are an integral part of these consolidated financial statements.

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED AND COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

	2016									2015
	Program Services					Supporting Services				
	Mental Health Services	Developmental Disabilities Services	Employment Services	Grants	Total Program Services	Administrative Expenses	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
Personnel costs										
Salaries	$ 16,289,938	$ 43,116,099	$ 30,476,019	$ -	$ 89,882,056	$ 10,582,255	$ -	$ 10,582,255	$ 100,464,311	$ 98,737,993
Benefits	539,436	5,793,130	11,022,470	-	17,355,036	1,514,689	1,671	1,516,360	18,871,396	18,581,468
Temporary staff	-	1,676,282	667,405	-	2,343,687	101,010	-	101,010	2,444,697	2,408,094
Payroll taxes	1,518,276	4,791,271	3,953,052	-	10,262,599	1,349,292	-	1,349,292	11,611,891	11,531,976
Total personel costs	18,347,650	55,376,782	46,118,946	-	119,843,378	13,547,246	1,671	13,548,917	133,392,295	131,259,531
Consulting	2,206,740	873,902	145,432	-	3,226,074	2,650,907	-	2,650,907	5,876,981	4,648,885
Office and administrative	1,345,743	820,804	2,955,233	-	5,121,780	4,096,281	76,924	4,173,205	9,294,985	8,509,603
Vehicles, transport and travel	435,962	2,571,599	342,036	-	3,349,597	311,677	-	311,677	3,661,274	4,555,613
Facilities	353,186	1,933,699	358,508	-	2,645,393	243,407	-	243,407	2,888,800	2,877,160
Rent	1,687,301	1,828,283	11,975	-	3,527,559	617,613	-	617,613	4,145,172	4,197,407
Interest expense	42,708	408,079	-	-	450,787	157,920	-	157,920	608,707	667,948
Utitilies	226,903	1,056,573	11,436	-	1,294,912	182,746	-	182,746	1,477,658	1,577,502
Food costs	201,936	2,526,252	-	-	2,728,188	27,323	-	27,323	2,755,511	2,715,067
Janitorial sub-contracts	-	-	12,336,466	-	12,336,466	6,148	-	6,148	12,342,614	13,403,973
Fundraising expenses	-	-	-	-	-	-	87,211	87,211	87,211	16,595
Grant and other distributions	-	-	-	114,459	114,459	13,021	-	13,021	127,480	196,372
Training supplies, equipment and personal supplies	524,293	1,342,434	3,870,851	-	5,737,578	119,523	-	119,523	5,857,101	6,472,391
Contract program services	-	2,335,998	170,884	-	2,506,882	712,512	-	712,512	3,219,394	3,058,601
Depreciation and amortization	142,335	2,153,851	382,412	-	2,678,598	1,012,318	-	1,012,318	3,690,916	3,732,019
Management fees	-	-	149,692	-	149,692	8,756,934	-	8,756,934	8,906,626	8,835,993
Total before eliminations	25,514,757	73,228,256	66,853,871	114,459	165,711,343	32,455,576	165,806	32,621,382	198,332,725	196,724,660
Eliminations	-	(1,690,060)	-	(12,534)	(1,702,594)	(9,335,373)	-	(9,335,373)	(11,037,967)	(10,748,704)
TOTAL	$ 25,514,757	$ 71,538,196	$ 66,853,871	$ 101,925	$ 164,008,749	$ 23,120,203	$ 165,806	$ 23,286,009	$ 187,294,758	$ 185,975,956

The accompanying notes are an integral part of these consolidated financial statements.

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 2,691,221	$ 2,882,665
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	3,638,997	3,681,924
Amortization	51,919	50,095
Provision for bad debts	1,441,984	677,758
Gain on acquisition of COAD	-	(158,593)
Unrealized loss on investments	295,683	393,422
Unrealized loss on interest rate swap	66,539	122,759
Gain on sale of land, buildings and equipment	(26,302)	(56,943)
Changes in operating assets and liabilities:		
Accounts receivable	6,790,947	(206,484)
Pledges receivable	40,779	216,238
Prepaid expenses	(161,195)	(240,254)
Due to third-party payors	(69,770)	155,127
Accounts payable	42,891	550,842
Accrued expenses and other liabilities	196,386	1,632,578
Deferred compensation and postemployment benefit obligation	(737,236)	(404,817)
Deferred rent	21,825	43,982
Deferred revenue and refundable advances	549,038	156,028
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,833,706	9,496,327
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,124,610)	(2,937,902)
Disbursement for loans receivable	45,000	(25,000)
Changes in other noncurrent assets	90,078	(56,922)
Changes in restricted cash	(193,688)	(3,960)
Refund (acquisition) of bond and note issue costs	-	134,643
Acquisition of land, buildings and equipment	(2,509,491)	(2,879,201)
Proceeds from sales of land, buildings and equipment	283,152	81,567
Proceeds from sales of investments	2,560,185	2,540,681
NET CASH USED IN INVESTING ACTIVITIES	(1,849,374)	(3,146,094)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds	(93,212)	(91,277)
Principal payments on mortgages and notes payable	(358,087)	(1,294,220)
Proceeds from mortgages and notes payable	-	969,876
Borrowings (payments) on short-term borrowings, net	(3,010,810)	(4,696,214)
NET CASH USED IN FINANCING ACTIVITIES	(3,462,109)	(5,111,835)
CHANGES IN CASH AND CASH EQUIVALENTS	9,522,223	1,238,398
CASH AND CASH EQUIVALENTS, Beginning of year	7,579,319	6,340,921
CASH AND CASH EQUIVALENTS, End of year	$ 17,101,542	$ 7,579,319

The accompanying notes are an integral part of these consolidated financial statements.

NOTE A – NATURE OF OPERATIONS

Chimes International Limited and Related Entities (the Organization) provide services to people living in the States of Maryland, Delaware, Pennsylvania, Virginia, North Carolina and the District of Columbia. The Organization provides mental health services, drug and substance abuse services and intellectual/developmental disabilities services. Its employment services programs also serve the aforementioned people and those with other disabilities and barriers to independent living.

Services provided to persons within the Organization's target populations include employment services and supports, day habilitation, counseling, educational supports and instruction, supported living services and a variety of living and housing alternatives. The Organization also provides administrative services to other organizations with common interests and needs.

The following is a summary of entities related to the Organization, which are included in the consolidated and combined financial statements.

Entity Name	Nature of Relationship
Chimes International Limited (International)	Parent, Board drawn from membership of supported organizations
The Chimes, Inc. (Chimes – Maryland)	International has sole membership
Chimes Metro, Inc. (Chimes – Delaware)	International has sole membership
Chimes District of Columbia, Inc. (Chimes – DC)	Common management
Chimes Virginia, Inc. (Chimes – VA)	International has sole membership
Chimes Foundation, Incorporated (The Chimes Foundation)	Common management
Holcomb Associates, Inc. (Holcomb)	International has sole membership
Open Door, Inc. (Open Door)	Holcomb has sole membership
Family-Child Resources, Inc. (FCR)	Holcomb has sole membership
Chimes Pennsylvania, Inc. (Chimes – PA)	Holcomb has sole membership
Chimes Employment Services, LLC (CES)	Chimes - Maryland has sole membership
Chester County Council on Addictive Diseases, Inc. (COAD)	Holcomb has sole membership

All significant intercompany accounts and transactions have been eliminated in the consolidated and combined financial statements.

Chimes Israel is an independent Israeli organization, which is not incorporated in the United States, some of whose directors are also members of the Board of Directors of one or more of the other related entities. Chimes Israel is not included in the consolidated and combined financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Use of Estimates

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

2. Financial Statement Presentation

Under Financial Accounting Standards Board Accounting Standards Codification (ASC), the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

The determination of a net asset class is established by the existence or absence of legally enforceable restrictions from outside of the Organization and its Board of Directors. If no outside restrictions exist, then net assets are recorded as unrestricted.

3. Donated Services

No amounts are recorded for donated personal services in these consolidated and combined financial statements since the services do not meet the criteria requiring consolidated and combined financial statement disclosure under accounting principles generally accepted in the United States. Volunteers have donated significant amounts of their time to the Organization; however, the value of these services cannot be estimated.

4. Net Assets

Unrestricted net assets consist of funds free of any legally enforceable restrictions outside of the Organization and its Board of Directors. Temporarily and permanently restricted net assets consist of funds subject to donor restrictions from outside the Organization and its Board of Directors. The Organization reports contributions of cash and other assets as donor restricted support if they are received with donor stipulations that limit the time period or manner of use of the contribution. However, if a donor restriction expires in the same reporting period the contribution is made, the contribution is recorded as an increase in unrestricted net assets as allowed by ASC. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated and combined statements of activities as net assets released from restrictions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

5. Support and Revenue

Some revenues are received as grant funds and third-party claims from the State of Maryland or municipalities in Maryland, as well as from the States of Delaware and Commonwealths of Pennsylvania, and Virginia. Such revenues are recognized when the related services are rendered. Unexpended funds may be due back to the funding authorities, unless the funding authority allows the Organization to retain such excess. Other revenues are earned under fee for service arrangements and employment contractual services. Contracts are subject to renewal.

The concentration of revenue from the Mid-Atlantic area is not expected to have any significant future effect on the Organization.

6. Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Periodically during the year, cash and cash equivalents in interest bearing accounts may have exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limitation. The Organization does not believe that it is exposed to any significant risk in such deposits.

7. Accounts Receivable

Most of the accounts receivable are due from the Federal government, State or other municipalities in Maryland, Delaware, Commonwealths of Pennsylvania, Virginia or the District of Columbia. Accounts receivable also includes amounts due from other payers for employment contractual services. Based upon a review of the receivables as of June 30, 2016 and 2015, management recorded an allowance for doubtful accounts of $1,758,697 and $1,577,500 respectively.

8. Pledges Receivable

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Chimes Foundation is the recipient of unconditional pledges receivable at June 30, which are expected to be received as follows:

	2016	2015
Receivable in less than 1 year	$ 58,640	$ 93,274
Receivable in 1 to 5 years	97,255	103,400
Total unconditional pledges receivable	155,895	196,674
Less allowance for doubtful accounts	(13,966)	(13,966)
Total unconditional pledges receivable	$ 141,929	$ 182,708

The Chimes Foundation provides an allowance for potentially uncollectible unconditional pledges receivable based on a review of their outstanding unconditional pledges receivable and their historical experience with the individual accounts. Management determined the discount to net present value was immaterial and hence is not recorded.

9. Land, Buildings and Equipment

Capital assets are stated at cost or, if donated, at fair market value on the date of donation. It is the Organization's policy to record as unrestricted net assets all donated property and equipment whose only restrictions are the depreciable lives of the property. The Organization's capitalization policy ranges from $1,000 to $2,500, except where regulation requires a different amount. Depreciation is provided over the following estimated useful lives of the related assets using the straight-line method.

Buildings and improvements	15 - 40 years
Land improvements	15 years
Automobiles	3 - 5 years
Furnishings and equipment	3 - 5 years
Leasehold improvements	life of lease

Although the Organization holds title to all of its assets, in the event of its dissolution, all assets acquired under capital grant programs may revert to the governmental entity under their respective funding agreements or to another 501(c)(3) corporation providing similar services as the Organization. As of June 30, 2016 and 2015, costs of approximately $705,000 of property and equipment were subject to this reversionary provision.

10. Investments and Investment Income

The Organization accounts for certain investments in equity securities (i.e., investments that have readily determinable fair values and are not accounted for by the equity method) and all investments in debt securities at fair value in the consolidated and combined statements of financial position. Gains and losses on investments resulting from their measurement at fair value are reported in the consolidated and combined statements of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by donor stipulation or by law.

Investment income earned is used to support the ongoing operations of the Organization and is classified as other income.

11. Intangible Assets

Intangible assets consist of bond and note issuance costs. Bond and note issuance costs related to the financing described in Note D are amortized on a straight-line basis over the life of the related bonds.

12. Derivative Financial Instrument

The Organization recognizes all derivative financial instruments in the consolidated and combined financial statements at their fair value. The Organization participates in interest rate swap contracts that are considered derivative financial instruments. Changes in the fair value of the derivative financial instruments are recognized in the consolidated and combined statements of activities as unrealized gain or loss on interest rate swap contracts.

13. Income Tax

The Organization's entities are exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code and are not considered private foundations. None of the Organizations' activities, with the exception of International, (See Note T) are subject to the tax on unrelated business income.

Under ASC topic, *Accounting for Income Taxes*, the Organization is required to recognize or disclose any tax positions that would result in unrecognized tax benefits. The Organization has no positions that would require disclosure or recognition under the topic. Tax years ending June 30, 2013 and after are still open.

14. Deferred Revenue and Refundable Advances

Revenue is recognized as earned. Amounts received in advance of the period in which the service is rendered are recorded as a liability under deferred revenue.

Revenues from government and private grants and contracts are recognized in accordance with the terms of the contract. Any government revenue received before it is expended is recorded as a refundable advance.

15. Advertising

Advertising costs are charged to operations when incurred. The Organization had no significant direct-response advertising. Management has determined that advertising expense for the years ended June 30, 2016 and 2015 was not material.

16. Acquisition Accounting

In accordance with ASC, upon the acquisition of a new affiliate, the Organization recognizes all identifiable assets and liabilities acquired at their fair value at the date of the acquisition. Any difference between the value of the assets and liabilities acquired is recognized in the consolidated and combined statements of activities as a gain on acquisition of new affiliate. Book value is considered equal to fair value for COAD, who merged with Holcomb during 2015.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

17. Recent Account Pronouncements

A) In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities*, which contains significant changes to the financial statements requirements under the *Not-for-Profit Entities* topic of the Accounting Standards Codification. The new standard is effective for the year ending June 30, 2019. The Organization will evaluate the effect that implementation of the new standard will have on its financial position, results of operations and cash flows.

B) In 2015, the Organization adopted FASB ASU 2015-07 *Fair Value Measurement, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share* (or Its Equivalent)(Topic 820) which eliminates the requirement to include in the fair value hierarchy any investments measured at fair value using net asset value (NAV) as a practical expedient. The ASU is effective, for non-public entities, for fiscal years beginning after December 15, 2015, with early adoption permitted and is to be retroactively applied.

18. Subsequent Events

In preparing these consolidated and combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 16, 2016, the date the consolidated and combined financial statements were available to be issued.

19. Reclassifications

Certain reclassifications have been made to the prior year consolidated and combined financial statements to conform to the current year presentation.

NOTE C – LAND, BUILDINGS AND EQUIPMENT

Major classes of land, buildings and equipment at June 30, 2016 and 2015 are as follows:

	2016	2015
Land	$ 4,859,083	$ 4,657,389
Buildings and improvements	39,049,801	38,798,184
Land improvements	325,585	278,662
Automobiles	7,369,704	7,223,180
Furnishings and equipment	17,366,097	17,853,173
Leasehold improvements	4,664,938	4,552,589
Idle equipment	363,370	-
Construction in progress	46,521	-
Total land, buildings and equipment	74,045,099	73,363,177
Less: accumulated depreciation	40,287,133	38,218,855
Net land, buildings and equipment	$33,757,966	$35,144,322

NOTE C – LAND, BUILDINGS AND EQUIPMENT – Continued

Depreciation on these assets for the years ended June 30, 2016 and 2015 was $3,638,996 and $3,681,924, respectively.

The Organization has equipment that is ready to be used for its operations. The equipment was idle throughout the year ended June 30, 2016.

NOTE D – INTANGIBLE ASSETS

Intangible assets at June 30, 2016 and 2015 are as follows:

	2016	2015
Bond and note issue costs	$ 318,124	$ 318,124
Less: accumulated amortization	115,764	63,845
Net intangible assets	$ 202,360	$ 254,279

Amortization expense was $51,920 and $50,095 for the years ended June 30, 2016 and 2015, respectively. Amortization expense for the next five years will be:

2017	$ 51,919
2018	51,919
2019	51,766
2020	5,419
2021	5,432
Thereafter	35,905
	$ 202,360

NOTE E – INVESTMENTS

Investments included in the Organization's consolidated and combined statements of financial position, all of which are held by The Chimes Foundation, at June 30, 2016 and 2015 are as follows:

	2016		2015	
	Cost	Market Value	Cost	Market Value
Corporate bonds	$1,279,279	$1,285,309	$1,541,134	$1,524,132
Common stocks	2,466,901	3,078,406	2,600,392	3,450,407
Mutual funds	689,216	814,814	592,616	818,724
REIT	104,766	132,762	157,642	156,460
Certificates of deposit	378,522	395,137	486,105	487,963
	$4,918,684	$5,706,428	$5,377,889	$6,437,686

NOTE E – INVESTMENTS – Continued

As described in Note L, included in the above investments are temporarily restricted investments in the amount of $184,401 and $185,175 as of June 30, 2016 and 2015, respectively. As described in Note M, included in the above investments are permanently restricted investments in the amount of $1,347,769 and $1,367,539 as of June 30, 2016 and 2015, respectively.

The following schedule summarizes the investment income and its classification in the consolidated and combined statements of activities for the years ended June 30, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 152,416	$ (774)	$ (19,770)	$ 131,872
Gains (losses) - net	(40,237)	-	-	(40,237)
	$ 112,179	$ (774)	$ (19,770)	$ 91,635

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 163,730	$ 5,052	$ 16,666	$ 185,448
Gains (losses) - net	51,101	(13,721)	(158,764)	(121,384)
	$ 214,831	$ (8,669)	$ (142,098)	$ 64,064

Endowment Investment and Spending Policies

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

NOTE E – INVESTMENTS – Continued

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an average real total return of at least 6% per year, net of management fees, over any rolling five year period. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of amounts sufficient to fund the activities to which the gifts relate, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Changes in donor restricted endowment net assets were as follows as of June 30:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment, beginning of year	$364,315	$ -	$ 1,367,539	$ 1,731,854
Investment income (loss)	38,298	-	(20,056)	18,242
Endowment, end of year	$402,613	$ -	$ 1,347,483	$ 1,750,096

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment, beginning of year	$326,001	$ -	$ 1,509,637	$ 1,835,638
Investment income (loss)	38,314	-	(142,098)	(103,784)
Endowment, end of year	$364,315	$ -	$ 1,367,539	$ 1,731,854

NOTE F – FAIR VALUE MEASUREMENTS

ASC establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets and liabilities measured at fair value. There have been no changes in the methodology used at June 30, 2016 and 2015.

Common stocks: Valued at the closing price reported on the active market in which the individual securities are traded.

Mutual funds: Valued at the closing price reported on the active market in which the individual securities are traded.

Real estate investment trust (REIT): Valued at the closing price reported on the active market in which the individual securities are traded.

Corporate bonds: Bonds relate to treasury curve and the spread off the treasury curve and the prices were not readily observable but instead mathematical calculations were used to obtain the final calculation.

CD: Valued at the amount that could be realized if the deposit were to be withdrawn at the statement of financial position date.

Interest rate swap: Valued using discounted cash flow calculations based upon forward interest-rate yield curves. The curves were obtained from independent pricing services reflecting broker market quotes. The fair values are adjusted for counter-party risk, when applicable.

NOTE F – FAIR VALUE MEASUREMENTS – Continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table is set forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of:

Assets as of June 30, 2016

	Level 1	Level 2	Level 3	Total
Common stocks	$ 3,078,406	$ -	$ -	$ 3,078,406
Mutual funds	814,814	-	-	814,814
Corporate bonds	-	1,285,309	-	1,285,309
REIT	-	132,762	-	132,762
CD	-	395,137	-	395,137
Total assets at fair value	$ 3,893,220	$ 1,813,208	$ -	$ 5,706,428

Liabilities as of June 30, 2016

	Level 1	Level 2	Level 3	Total
Interest rate swap	$ -	$ 189,298	$ -	$ 189,298

Assets as of June 30, 2015

	Level 1	Level 2	Level 3	Total
Common stocks	$ 3,450,673	$ -	$ -	$ 3,450,673
Mutual funds	818,724	-	-	818,724
Corporate bonds	-	1,524,135	-	1,524,135
REIT	-	156,460	-	156,460
CD	-	487,694	-	487,694
Total assets at fair value	$ 4,269,397	$ 2,168,289	$ -	$ 6,437,686

Liabilities as of June 30, 2015

	Level 1	Level 2	Level 3	Total
Interest rate swap	$ -	$ 122,759	$ -	$ 122,759

NOTE G – SHORT-TERM BORROWINGS

International has a $13,000,000 revolving credit note (loan) with BB&T due on demand. The loan requires the Organization to comply with several covenants. The loan is collateralized by 20 properties of Chimes – Maryland, is cross-collateralized and cross-defaulted with all other loans to the borrower. The loan bears interest at the daily LIBOR Rate plus 275 points (2.91% as of June 30, 2016 and 2015). The loan is scheduled to expire June 30, 2018. The outstanding balance at June 30, 2016 and 2015 was $-0- and $1,910,810, respectively. Under the terms of the loan, the Organization had to comply with covenants and management believes they are in compliance as of June 30, 2016.

Chimes – DC has a $10,000,000 revolving credit note (loan) with BB&T, due on demand. The loan is collateralized by a first lien on certain accounts receivable. The loan bears interest at the Daily LIBOR Rate plus 275 points (2.91% as of June 30, 2016 and 2015). The loan is scheduled to expire June 30, 2018. The outstanding balance at June 30, 2016 and 2015 was $0-. Under the terms of the loan, the Organization had to comply with a covenants and management believes they are in compliance as of June 30, 2016.

Holcomb has a $2,300,000 working capital line of credit (working capital line) with Branch Banking & Trust Bank (BB&T) collateralized by business assets bearing interest at BB&T's prime rate minus .50%, but not to be less than 3.50% (3.50% as of June 30, 2016 and 2015). The working capital line is due on demand, expires on June 28, 2017, and has to comply with covenants. The outstanding balance at June 30, 2016 was $835,978 and $1,935,978, respectively.

Holcomb also has a $500,000 real estate purchasing agent line of credit (real estate line) with BB&T bearing interest at BB&T's prime rate minus .50%, but not to be less than 4.25% (4.25% as of June 30, 2016 and 2015). The real estate line is collateralized by four properties, three of which are being held as mortgages by BB&T (See Note I) and one that is directly owned by Holcomb. The real estate line is due on demand. There were no outstanding borrowings as of June 30, 2016 and 2015. Subsequent to year end, this real estate line has been terminated.

NOTE H – BONDS PAYABLE

Delaware Economic Development Authority Revenue Bonds – Series 2010

On December 29, 2010, the Delaware Economic Development Authority (DEDA) issued $2,500,000 revenue bonds (Series 2010) to Chimes – Delaware. The purpose of the bonds are to refinance seven homes purchased on the line of credit from a related party and to refinance two homes that were financed with Wilmington Trust (see Note I). In addition, proceeds were used to purchase land and will be used to construct a new barrier free home in Delaware. The payment of the bonds are secured by first lien mortgages and security interests for ten properties. Under the terms of the bonds, the Organization had to comply with covenants and management believes they are in compliance as of June 30, 2016.

The bonds also require the Organization to comply with several other covenants. The bonds mature December 29, 2020, and bear interest at the greater of 67% of the Federal Home Loan Board Rate plus 365 basis points or 4% (3.96% as of June 30, 2016 and 2015). The bonds payable balance as of June 30, 2016 and 2015 was $1,911,596 and $2,006,384, respectively.

Principal payable maturities of the bonds for the next five years and thereafter as of June 30, 2016 are as follows:

NOTE H – BONDS PAYABLE – Continued

Years ending June 30,	2017	$	87,200
	2018		90,807
	2019		94,563
	2020		98,474
	Thereafter		1,540,552
			1,911,596
	Less: current maturities		87,200
		$	1,824,396

Interest expense related to lines of credit, bonds payable, mortgages and notes payable included in the consolidated and combined statements of activities for the years ended June 30, 2016 and 2015 was $507,556 and $543,579, respectively.

NOTE I – MORTGAGES AND NOTES PAYABLE

Mortgages and notes payable at June 30, are as follows:	2016	2015
Note payable to a bank, payable until July 2021, monthly installments of $3,559 including interest at 4.8%, with the remaining balance due July 2021. The note is collateralized by four properties of the borrower. (Chimes - Maryland)	$ 413,139	$ 435,093
Note payable to a bank, payable until July 2019, monthly installments of $14,725 plus interest at the fixed rate of 3.96%. See interest rate swap information below, remaining balance due July 2019. The note is collateralized by real estate. See Note J. (International)	4,884,580	5,068,300
Mortgage payable to bank, payable until December 2017, monthly installments of $8,400 including interest at 4.16%, collateralized by real property and improvements thereon. Balance is due in full in December 2017. (Chimes - Delaware)	1,186,926	1,236,385
Mortgage payable to BB&T dated April 7, 2015, collateralized by the property at 290 Kirk Lane, Media, Pennsylvania. The loan is for a term of 60 months with a fixed interest rate of 3.99% per annum and matures April 7, 2020. The monthly principal and interest payments are $579. The mortgage is secured by a deed of trust on the property and the Organization is required to comply with various covenants. (Holcomb)	91,413	94,645
Sub-total balance forward	$ 6,576,058	$ 6,834,423

NOTE I – MORTGAGES AND NOTES PAYABLE – Continued

	2016	2015
Sub-total carried forward	$ 6,576,058	$ 6,834,423
Mortgage payable to BB&T dated May 12, 1999, collateralized by the property at 1053 Glenn Hall Road, Kennett Square, Pennsylvania. The loan is for a term of 300 months with interest subject to adjustment every 60 months to the average five-year U.S. Treasury constant maturities yield in effect 30 days prior to the adjustment date. The rate at June 30, 2015 and 2014 was 3.39% and 4.23% respectively. Currently, the monthly payment of principal and interest is $1,895. (Holcomb)	161,750	178,525
Mortgage payable to BB&T dated August 26, 1999, collateralized by the property at 515 Cherry Tree Road, Aston, Pennsylvania. The loan is for a term of 300 months with an interest rate subject to adjustment every 60 months to the average five-year U.S. Treasury constant maturities yield plus 2% rounded to the nearest .125%. The rates at June 30, 2016 and 2015 were 3.625%. Currently, the monthly payment of principal and interest is $1,290. (Holcomb)	110,309	124,276
Mortgage payable to DNB dated August 3, 2010 collateralized by the property at 920 Baltimore Avenue, Kennett Square, Pennsylvania. The loan is for a term of 292 months with an interest rate of 4.50% per annum. Currently, the monthly payment of principal and interest is $6,287 with the note maturing November 1, 2034. The Organization has to comply with certain covenants. (Holcomb)	937,174	966,383
Mortgage payable to BB&T dated June 22, 2000, collateralized by the property at 115 Burmont Road, Drexel Hill, Pennsylvania. The loan is for a term of 300 months with a variable interest rate of 2.0% above the five-year U.S. Treasury constant maturities rate. Currently, the monthly payment of principal and interest is $1,041, with interest at the current rate of 3.375% per annum. (Holcomb)	97,549	105,854
Mortgage loan payable to BB&T in the amount of $880,000 collateralized by the property at 3995 East Market Street, York, Pennsylvania. The mortgage, which is co-borrowed by Holcomb and FCR, is for a term of 60 months, has a fixed interest rate of 3.99% per annum and matures April 7, 2020. The monthly principal and interest payments are $5,355 with a balloon payment of $727,009 due on April 7, 2020. The mortgage is secured by a deed of trust on the property and the Organization is required to comply with various covenants. (Holcomb)	845,340	875,230
Total	8,728,180	9,084,691
Less: current maturities	371,618	356,177
	$ 8,356,562	$ 8,728,514

NOTE I – MORTGAGES AND NOTES PAYABLE – Continued

Payments of principal during the next five years and thereafter as of June 30, 2016, are as follows:

Years ending June 30,	2017	$ 371,618
	2018	1,474,663
	2019	351,588
	2020	5,233,925
	2021	120,569
	Thereafter	1,175,817
		$ 8,728,180

In August 2014, International entered into an interest rate swap agreement with BB&T Bank in the initial notional amount of $5,230,275 to limit the exposure of the floating interest rate on their BB&T 5-year loan to a fixed interest rate of 3.96%. The agreement terminates July 1, 2019. For the years ended June 30, 2016 and 2015, International recognized an unrealized loss related to the swap in the amount of $66,539 and $122,759, respectively.

NOTE J – DERIVATIVE FINANCIAL INSTRUMENT

The Organization makes use of derivative instruments for the purpose of managing interest rate risks. The Organization has entered into an interest rate swap agreement (Swap) to reduce the impact of changes in interest rates on a portion of its floating rate debt. On July 2, 2014, the Organization entered into an interest rate swap agreement related to its credit facilities with BB&T. At June 30, 2016, the notional amount was $5,097,750 and the Swap matures July 1, 2019. The Swap requires payment of a fixed rate of interest (3.96%) and the receipt of a variable rate of interest (LIBOR) on the notional amount of indebtedness.

The Organization purpose in entering into this swap arrangement was to hedge the risk of interest rate increases on the related variable rate debt. Accordingly, the swap arrangement was designated as a cash flow hedging activity and represented a derivative financial instrument. This derivative financial instrument was not held for trading purposes. The Organization accounted for this derivative financial instrument by presenting it on the consolidated and combined statement of financial position at its fair value. Since this instrument was designated as a hedging activity, changes in the fair value of this instrument were recognized in the consolidated and combined statement of activities. The cash flow effects of the swap arrangement are included in interest expense on the consolidated and combined statements of activities. The effect for the years ended June 30, 2016 and 2015 was to increase total interest expense by $81,797 and $85,848, respectively. The effect for the years ended June 30, 2016 and 2015 of the unrealized fluctuation in the fair value of the swap included in the consolidated and combined statements of activities was an unrealized loss of $66,539 and $122,759, respectively. The derivative financial instrument totaled $(189,298) and $(122,759) at June 30, 2016 and 2015, respectively.

The Organization is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Organization does not anticipate nonperformance by the counterparty.

NOTE K – BOARD DESIGNATED NET ASSETS

Board designated net assets of $14,053 and $14,112 as of June 30, 2016 and 2015, respectively, were available for the purpose of the Parnella Fund.

NOTE L – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and 2015, was available for the following purposes:

	2016	2015
Tina Hyatt Fund	$ 184,401	$ 185,175
Chimes - Delaware board restriction	528,407	502,518
Total temporarily restricted net assets	712,808	687,693
Less: amounts eliminated in consolidation	528,407	502,518
Net temporarily restricted net assets	$ 184,401	$ 185,175

In 2012, Chimes – Delaware made a temporarily restricted contribution of $400,000 to The Chimes Foundation. Use of the funds is restricted to uses to be approved by the Board of Directors of Chimes – Delaware. The balance in this temporarily restricted fund was $528,407 and $502,518 as of June 30, 2016 and 2015, respectively, and has been eliminated on these consolidated and combined financial statements.

NOTE M – PERMANENTLY RESTRICTED NET ASSETS

In 1995, The Chimes Foundation received $100,000 from The Harry and Jeanette Weinberg Foundation, Incorporated (Weinberg Foundation) to establish an endowment fund called The Harry and Jeanette Weinberg Futures Fund (Weinberg Futures Fund), with $200,000 in matching funds raised by The Chimes Foundation. In 1996, The Chimes Foundation received an additional $100,000 from the Weinberg Foundation with $200,000 in matching funds raised by The Chimes Foundation to contribute further to the Weinberg Futures Fund.

In 1999, The Chimes Foundation received an additional $150,000 from the Weinberg Foundation with $150,000 in matching funds raised by The Chimes Foundation to contribute further to the Weinberg Futures Fund. For years after 1999 no additional receipts were received from the Weinberg Foundation and no matching funds were raised. The Weinberg Futures Fund’s purpose is to provide services to individuals who require financial assistance to participate in the programs that The Chimes Foundation supports. Although informally identified, management has not formally named an account or investment in the name of the Weinberg Futures Fund.

The endowment agreement requires that 30% of the dividend and interest investment income and all realized or unrealized gains and losses generated by those funds be retained to maintain and increase purchasing power for future distributions. As of June 30, 2016 and 2015, The Chimes Foundation had segregated those earnings and added them to the informally identified investment.

NOTE M – PERMANENTLY RESTRICTED NET ASSETS – Continued

In 2012, The Chimes Foundation received $20,000 to establish an award in the name of Ina and Norman Lampner. The corpus of these funds is permanently restricted. Earnings on the corpus are temporarily restricted in accordance with the gift agreement.

Permanently restricted net assets as of June 30, 2016 and 2015, consist of the following:

	2016	2015
Weinberg Foundation Fund	$ 1,325,401	$ 1,345,457
Ina and Norman Lampner Fund	22,368	22,082
	$ 1,347,769	$ 1,367,539

NOTE N – RETIREMENT PLANS

In 1994, Chimes – Maryland (assigned to International effective July 1, 2004) established a nonqualified severance plan for certain administrative employees. Discretionary contributions are to be made to the plan on an annual basis. Contribution expense for the years ended June 30, 2016 and 2015 was $102,084 and $164,710, respectively. Contributions are paid into a separate restricted trust account for the plan with investments subject to the discretion of the qualified participants. The maximum aggregated benefits are limited by the terms of the agreement.

Effective January 1, 2000, Holcomb adopted the “Holcomb Associates, Inc. 403(b) Plan” which matches employee contributions at 50% up to 6% of annual salary, with 100% vesting after five years of participation. Contributions for the years ended June 30, 2016 and 2015 were $99,377 and $99,463, respectively.

Effective July 1, 2004, Chimes – Maryland established a 403(b) plan covering substantially all employees earning $80,000 or more. Since inception, the plan floor has periodically increased. Beginning with the year ending June 30, 2009, the ceiling increased to $100,000. Chimes – Maryland, Chimes – Delaware, Chimes – VA, and International all participate in this plan. This plan was restated on January 1, 2009, and the plan floor was removed. The Organization contributes 2.5% of the annual salaries of qualifying participants. The Organization also matches employee contributions up to 3% of the annual salaries of qualifying participants. The 403(b) contribution expense for the years ended June 30, 2016 and 2015, was $1,299,541 and $1,100,705, respectively.

Effective January 1, 2006, Chimes – DC participates in a 401(a) defined contribution retirement plan. Under the plan, participation is limited to certain administrative personnel with a contribution equaling 2% of the covered employees’ salary. Contributions to the 401(a) Plan for the years ended June 30, 2016 and 2015 were $46,808 and $36,074, respectively

Effective January 1, 2006, Chimes – DC established a 403(b) plan that is only a deferral and is open to all employees of Chimes – DC. There were no employer contributions to this plan.

NOTE N – RETIREMENT PLANS – Continued

Effective December 1, 2011, Holcomb established a deferred compensation plan under IRC 457(b) for one of its officers. The assets are invested in Holcomb's name and, accordingly a deferred compensation liability of equal amount is recorded on the statements of financial position. Contribution expense was $10,000 for each of the years ended June 30, 2016 and 2015, respectively. The deferred compensation asset and corresponding liability account balances included in the accrued expenses and other liabilities was $74,991 and $64,742 as of June 30, 2016 and 2015, respectively.

During 2011, the frozen Chimes – Maryland Money Purchase Pension Plan merged with the frozen Chimes – Maryland 401(k) Plan and became the Chimes, Inc. 401(a) defined contributions plan. This plan is also frozen and there are no longer contributions going into the plan.

NOTE O – POSTEMPLOYMENT BENEFIT OBLIGATION

International has a postretirement health insurance plan for certain individuals. The postretirement health insurance plan provides for continued life-time health coverage for certain employees upon retirement until the latter of their death or the death of their spouse. International has accrued a liability for these projected amounts based upon actuarial calculations and the related assumptions.

The following table sets forth the plans' funded status and amounts recognized in the financial statements at June 30:

	2016	2015
Benefit obligation	$ 662,000	$ 1,020,578
Plan assets at fair value	-	-
Funded status - under	$ (662,000)	$ (1,020,578)
Accumulated benefit obligation	N/A	N/A
Employer contributions	$ 900,000	$ 12,388
Benefits paid	(900,000)	(12,388)
Amounts recognized in the consolidated statements of financial position consist of:		
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	662,000	1,020,578
Amounts recognized in the consolidated statements of activities consist of:		
Net (gain) loss	$ 211,174	$ 34,754
Amounts recognized in unrestricted net assets, not yet recognized as periodic costs	$ 211,174	$ 34,754

NOTE O – POSTEMPLOYMENT BENEFIT OBLIGATION – Continued

Assumptions used in the actuarial calculations above were as follows at June 30, 2016 and 2015:

Discount rate	5.00%
Inflation rate	2.80%
Expected long-term rate of return on assets	N/A
Rate of compensation increase	N/A

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Assumptions used in the actuarial calculations above were as follows at June 30, 2016 and 2015:

	2014	**2015**
Health care cost trend rate assumed for next year	7.0%	6.5%
Rate to which the cost trend is assumed to decline	4.3%	4.3%
Year that the rate reaches the ultimate trend rate	2070	2070

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase	*1% Decrease*
Effect on postemployment benefit obligation	NA	NA

Employer contributions expected to be made in 2017 total $669,000 to its postretirement benefit plan as a settlement to the remaining participants.

The Company is contractually obligated to provide retiree health benefits to certain executives. Because of rising health care costs and the potential cost of maintaining a retiree health plan, the Company has decided to buy-out those obligations for certain executives by providing a one-time lump sum payment to those executives. Payments totaling $669,000 will be made during the year ended June 30, 2017. The balance on the consolidated and combined statements of financial position reflects the buy-out amounts and not the actual liabilities.

NOTE P – DEFERRED RENT

Holcomb's lease agreement for its administrative office has a provision for rent payments with fixed annual increases. In accordance with generally accepted accounting principles, the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for consolidated and combined financial statement purposes is recorded as deferred rent.

Future amortization of deferred rent over the next five years and thereafter are as follows:

Years ending June 30,	2017	$ 53,248
	2018	(7,680)
	2019	(15,803)
	2020	(23,927)
	2021	(32,051)
	Thereafter	(139,574)
		$ (165,787)

NOTE Q – COMMITMENTS AND CONTINGENCIES

The States of Maryland and Delaware, Commonwealths of Pennsylvania and Virginia, the District of Columbia and the Federal government retain the right to conduct audits of the Organization's programs funded by State grants, other State resources and Federal programs. Audit adjustments are reflected in the period incurred. Management of the Organization is unaware of any material potential liability or receivable that might arise as a result of such an audit, other than amounts already reflected in these consolidated and combined financial statements.

Chimes – DC has agreed to pay a fee to Source America (formerly the National Institute for the Severely Handicapped) as compensation for procuring Federal government contracts for Chimes – DC in the amount of 4% of cash received for services from those contracts. Fees paid to Source America for the years ended June 30, 2016 and 2015 totaled $2,313,149 and $1,938,929, respectively.

The Organization leases numerous residences and buildings for its clients and administration that are treated as operating leases. The future minimum lease payments as of June 30, 2016 are as follows:

Years ending June 30,	2017	$ 3,282,973
	2018	1,848,250
	2019	1,364,306
	2020	1,282,055
	2021	1,190,278
	Thereafter	5,265,799

Rent expense included in facilities expense on the consolidated and combined statements of functional expenses for the years ended June 30, 2016 and 2015 was $4,145,172 and $4,197,407, respectively.

The Organization acts as an agent on behalf of individuals served regarding the holding of client cash funds. At June 30, 2016 and 2015, the Organization was holding $631,071 and $689,013, respectively, in client funds, which have not been reflected in these consolidated and combined financial statements.

In September 2015, an agreement was entered into between Holcomb and the COO. Upon the COO's retirement, which is expected to occur December 31, 2016, the COO will be entitled to a severance payment in the amount of two weeks of base salary for every year of service worked at Holcomb. This amount is to be paid in a lump sum no later than August 31, 2017, upon completion of six months of consulting services. The COO has been employed by Holcomb for 21 years. As of June 30, 2016, Holcomb has accrued $146,318 for this liability included in accrued expenses and other liabilities.

Legal Contingencies:

The Organization is involved in litigation arising in the ordinary course of business. With the exception noted below, the ultimate outcome of these matters is not presently determinable; it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the consolidated and combined financial statements of the Organization.

NOTE Q – COMMITMENTS AND CONTINGENCIES – Continued

Department of Labor v. Chimes District of Columbia, Inc., et al. On October 30, 2015, the U.S. Department of Labor filed a lawsuit in the U.S. District Court for the District of Maryland against Chimes District of Columbia, Inc., Chimes International, Ltd., and a current and former employee of Chimes DC (as well as other unrelated parties). The lawsuit alleges certain violations of the Employee Retirement Income Security Act of 1974 in connection with the operation of the Chimes D.C. Inc. Health & Welfare Plan. The Company (and related parties) do not believe that their actions were improper and the Company (and related parties) intend to defend vigorously any claims of wrongdoing. It is too early to tell whether the Department of Labor might prevail against the Company and the related parties. A reserve in the amount of $958,386 has been established as of June 30, 2016 and is included in accrued expenses on the consolidated and combined statements of financial position to address anticipated costs associated with the defense of the Company in this matter.

Letters of Credit

The Organization held several letters of credits with BB&T. At June 30, 2016 and 2015, three letters of credit to ensure payment for workers compensation insurance totaled $4,077,000. These letters of credit are issued under the $13,000,000 credit facility from BB&T for Chimes International (see Note G). In 2016, the Organization held two letters of credit totaling $68,400 through BB&T to ensure performance under building permits issued to local municipalities.

NOTE R – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the years ended June 30, 2016 and 2015 was $478,092 and $512,472, respectively.

NOTE S – DUE FROM/TO THIRD-PARTY PAYOR

Amounts due to third-party payor include monies the Organization received in excess of grant funds or room and board, which is due back to the state. The Organization’s total amount due to third-party payors as June 30, 2016 and 2015 is $1,758,459 and $1,828,229, respectively.

NOTE T – INVESTMENT IN CLOSELY HELD COMPANY

As of June 30, 2016, The Chimes Foundation held a 49% interest in a closely held corporation (the Corporation) with no capital investment. The Corporation operates on a calendar year. The Chimes Foundation makes short-term loans to the Corporation from time to time, with interest payable at a rate of prime plus 2% adjusted monthly. There was a $30,000 and $75,000 balance as of the years ended June 30, 2016 and 2015, respectively. The agreement states that International, which provides accounting and payroll services, receives a management fee of 3% of the Corporation’s gross revenues. Total management fee income was $111,535 and $83,339 for the years ending June 30, 2016 and 2015, respectively. This fee is taxable under Internal Revenue Code Section 512. For the years ended June 30, 2016 and 2015, there was no liability for unrelated business income taxes.

SUPPLEMENTARY INFORMATION

GSG Gorfine Schiller Gardyn
Certified Public Accountants and Consultants

REPORT ON SUPPLEMENTARY INFORMATION

Independent Auditors' Report

To The Board of Directors and Officers
Chimes International Limited and Related Entities
Baltimore, Maryland

We have audited the consolidated and combined financial statements of Chimes International Limited and Related Entities as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon dated November 16, 2016, which contained an unqualified opinion on those consolidated and combined financial statements.

Report on Supplementary Consolidating and Combining Information

Our audits were performed for the purpose of forming an opinion on the consolidated and combined financial statements as a whole. The consolidating and combining information is presented for the purposes of additional analysis and is not a required part of the consolidated and combined 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 and combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated and combined 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 and combined financial statements or to the consolidated and combined 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 consolidated and combined financial statements as a whole.

Gorfine, Schiller + Gardyn, P.A.

November 16, 2016
Owings Mills, Maryland

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING AND COMBINING SCHEDULE OF FINANCIAL POSITION
June 30, 2016

	The Chimes, Inc and Related Entity	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 144,512	$ 476,511	$ 5,764,160	$ 25,266	$ 7,097,980
Cash - deferred compensation	-	-	-	-	-
Accounts receivable, net of allowance for doubtful accounts	1,291,480	2,533,575	9,366,182	446,330	59,090
Pledges receivable, net	-	-	-	-	-
Prepaid expenses	171,161	98,481	57,066	45,872	502,574
Current portion of loans receivable	-	-	-	-	-
Notes receivable from affiliates, current portion	-	-	-	-	-
Investments, current	-	-	-	-	-
Due to related parties	3,467,144	345,326	5,769,005	1,913,077	625,699
Total current assets	5,074,297	3,453,893	20,956,413	2,430,545	8,285,343
NONCURRENT ASSETS					
Restricted cash	-	-	-	-	-
Land, buildings and equipment, net of accumulated depreciation	18,822,199	5,391,367	806,431	1,201,786	823,273
Intangible assets, net of accumulated amortization	8,173	54,840	-	-	139,347
Long-term pledges receivable, net	-	-	-	-	-
Note receivable from affiliates, net	-	-	-	-	-
Investments, long-term	-	-	-	-	-
Other noncurrent assets	58,755	32,190	5,119	33,139	233,791
Total noncurrent assets	18,889,127	5,478,397	811,550	1,234,925	1,196,411
TOTAL ASSETS	$ 23,963,424	$ 8,932,290	$ 21,767,963	$ 3,665,470	$ 9,481,754

See independent auditors' report on supplementary information.

Family-Child Resources, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chester County Council on Addictive Diseases, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 31,965	$ 754,408	$ 187,416	$ 50,926	$ 2,568,398	$ -	$ 17,101,542
-	74,991	-	-	-	-	74,991
41,835	3,428,376	66,776	221,074	3,164	-	17,457,882
-	-	-	-	58,640	-	58,640
3,598	284,254	17,797	-	83,637	-	1,264,440
-	-	-	-	30,000	-	30,000
-	-	-	-	185,286	(185,286)	-
-	-	-	-	4,484,128	-	4,484,128
15,000	1,251,465	145,049	121,121	134,187	(13,787,073)	-
92,398	5,793,494	417,038	393,121	7,547,440	(13,972,359)	40,471,623
-	-	-	-	505,428	-	505,428.00
1,361,901	4,825,870	511,693	5,539	7,907	-	33,757,966
-	-	-	-	-	-	202,360
-	-	-	-	83,289	-	83,289
-	-	-	-	1,837,206	(1,837,206)	-
-	-	-	-	1,222,300	-	1,222,300
-	110,182	-	-	4,367	-	477,543
1,361,901	4,936,052	511,693	5,539	3,660,497	(1,837,206)	36,248,886
$ 1,454,299	$ 10,729,546	$ 928,731	$ 398,660	$ 11,207,937	$ (15,809,565)	$ 76,720,509

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING AND COMBINING SCHEDULE OF FINANCIAL POSITION - CONTINUED
June 30, 2016

	The Chimes, Inc and Related Entity	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current maturities of long-term debt	$ 160,299	$ 136,260	$ -	$ 49,667	$ 190,375
Short-term borrowings	-	-	-	-	-
Accounts payable	891,169	335,505	2,248,098	92,180	665,895
Accrued expenses and other liabilities	3,067,748	1,686,883	6,720,948	285,207	3,383,744
Deferred revenue	846,624	-	97,377	-	-
Deferred rent	-	-	-	-	-
Due to third-party payors	1,758,459	-	-	-	-
Due to related parties	7,823,879	418,066	299,051	80,900	3,134,371
Total current liabilities	14,548,178	2,576,714	9,365,474	507,954	7,374,385
LONG-TERM LIABILITIES					
Bonds payable	-	1,824,396	-	-	-
Mortgages and notes payable	1,654,499	1,137,866	-	571,166	4,694,205
Interest rate swap	-	-	-	-	189,298
Deferred compensation and postemployment benefit obligation	-	-	-	-	-
Total long-term liabilities, net of current maturities	1,654,499	2,962,262	-	571,166	4,883,503
Total liabilities	16,202,677	5,538,976	9,365,474	1,079,120	12,257,888
NET ASSETS (DEFICIENCY)					
Unrestricted					
Undesignated	7,760,747	3,393,314	12,402,489	2,586,350	(2,776,134)
Board designated	-	-	-	-	-
	7,760,747	3,393,314	12,402,489	2,586,350	(2,776,134)
Temporarily restricted	-	-	-	-	-
Permanently restricted	-	-	-	-	-
Total net assets (deficiency)	7,760,747	3,393,314	12,402,489	2,586,350	(2,776,134)
TOTAL LIABILITIES AND NET ASSETS	$ 23,963,424	$ 8,932,290	$ 21,767,963	$ 3,665,470	$ 9,481,754

Family-Child Resources, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chester County Council on Addictive Diseases, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ -	$ 107,503	$ -	$ -	$ -	$ (185,286)	$ 458,818
-	835,978	-	-	-	-	835,978
3,758	564,569	8,942	37,714	21,327	-	4,869,157
98,336	1,915,638	126,112	42,427	39,119	-	17,366,162
-	276,943	-	2,082	-	-	1,223,026
-	165,787	-	-	-	-	165,787
-	-	-	-	-	-	1,758,459
1,335,523	182,112	-	15,000	498,171	(13,787,073)	-
1,437,617	4,048,530	135,054	97,223	558,617	(13,972,359)	26,677,387
-	-	-	-	-	-	1,824,396
-	2,136,032	-	-	-	(1,837,206)	8,356,562
-	-	-	-	-	-	189,298
-	-	-	-	-	-	-
-	2,136,032	-	-	-	(1,837,206)	10,370,256
1,437,617	6,184,562	135,054	97,223	558,617	(15,809,565)	37,047,643
16,682	4,544,984	793,677	301,437	8,574,690	528,407	38,126,643
-	-	-	-	14,053	-	14,053
16,682	4,544,984	793,677	301,437	8,588,743	528,407	38,140,696
-	-	-	-	712,808	(528,407)	184,401
-	-	-	-	1,347,769	-	1,347,769
16,682	4,544,984	793,677	301,437	10,649,320	-	39,672,866
$ 1,454,299	$ 10,729,546	$ 928,731	$ 398,660	$ 11,207,937	$ (15,809,565)	$ 76,720,509

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING AND COMBINING SCHEDULE OF ACTIVITIES
For the Year Ended June 30, 2016

	The Chimes, Inc and Related Entity	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
REVENUE AND OTHER SUPPORT					
Mental health services	$ -	$ -	$ -	$ -	$ -
Developmental disabilities services	49,055,046	26,272,826	-	6,238,241	-
Employment contractual services	2,352,241	-	75,743,741	-	-
Management fees	-	-	-	-	9,169,375
Donations and grants	27,000	-	-	-	-
Miscellaneous	238,987	272	17,231	614	122,804
Fundraising income, net of fundraising expenses of $248,832	-	-	-	-	-
Total revenue, gains and other support	51,673,274	26,273,098	75,760,972	6,238,855	9,292,179
EXPENSES					
Program services					
Mental health services	-	-	-	-	-
Developmental disabilities services	45,389,770	22,746,510	-	5,091,976	-
Employment contractual services	2,481,591	-	64,372,280	-	-
Grants	-	-	-	-	-
Total program services	47,871,361	22,746,510	64,372,280	5,091,976	-
Supporting services					
Administrative expenses	3,795,425	3,538,483	8,736,408	913,933	9,167,823
Fundraising expenses	-	-	-	-	-
Total supporting services	3,795,425	3,538,483	8,736,408	913,933	9,167,823
Total expenses and losses	51,666,786	26,284,993	73,108,688	6,005,909	9,167,823
OPERATING INCOME	6,488	(11,895)	2,652,284	232,946	124,356
OTHER INCOME (LOSS)					
Investment income	-	-	-	-	-
Loss on interest rate swap	-	-	-	-	(66,539)
Gain (loss) on sale of assets	(18,803)	(1,645)	55,285	(17,535)	9,000
Net other income (loss)	(18,803)	(1,645)	55,285	(17,535)	(57,539)
CHANGES IN NET ASSETS	(12,315)	(13,540)	2,707,569	215,411	66,817
NET ASSETS (DEFICIENCY), Beginning	7,773,062	3,406,854	9,694,920	2,370,939	(2,842,951)
NET ASSETS (DEFICIENCY), Ending	$ 7,760,747	$ 3,393,314	$ 12,402,489	$ 2,586,350	$ (2,776,134)

Family-Child Resources, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chester County Council on Addictive Diseases, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 773,841	$ 27,607,122	$ 1,716,597	$ 753,237	$ -	$ -	$ 30,850,797
-	-	-	-	-	(1,419,778)	80,146,335
-	-	-	-	-	(303,681)	77,792,301
-	192,000	-	-	-	(9,057,840)	303,535
-	91,830	10,992	909	206,499	(12,534)	324,696
-	1,297	19,606	97,658	-	(142,983)	355,486
-	-	-	-	161,431	-	161,431
773,841	27,892,249	1,747,195	851,804	367,930	(10,936,816)	189,934,581
684,104	22,672,187	1,461,308	697,158	-	-	25,514,757
-	-	-	-	-	(1,690,060)	71,538,196
-	-	-	-	-	-	66,853,871
-	-	-	-	114,459	(12,534)	101,925
684,104	22,672,187	1,461,308	697,158	114,459	(1,702,594)	164,008,749
171,812	5,396,523	254,168	58,594	422,407	(9,335,373)	23,120,203
-	-	-	-	165,806	-	165,806
171,812	5,396,523	254,168	58,594	588,213	(9,335,373)	23,286,009
855,916	28,068,710	1,715,476	755,752	702,672	(11,037,967)	187,294,758
(82,075)	(176,461)	31,719	96,052	(334,742)	101,151	2,639,823
-	-	-	-	192,786	(101,151)	91,635
-	-	-	-	-	-	(66,539)
-	-	-	-	-	-	26,302
-	-	-	-	192,786	(101,151)	51,398
(82,075)	(176,461)	31,719	96,052	(141,956)	-	2,691,221
98,757	4,721,445	761,958	205,385	10,791,276	-	36,981,645
$ 16,682	$ 4,544,984	$ 793,677	$ 301,437	$ 10,649,320	$ -	$ 39,672,866

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING AND COMBINING SCHEDULE OF LAND, BUILDINGS AND EQUIPMENT
June 30, 2016

	The Chimes, Inc and Related Entity	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.
Land	$ 2,885,305	$ 880,048	$ -	$ 155,053
Buildings and improvements	27,643,136	4,824,714	-	777,501
Land improvements	313,527	-	-	10,720
Automobiles	3,776,653	605,042	1,462,326	460,876
Furnishings and equipment	4,301,068	1,366,230	2,905,280	325,282
Leasehold improvements	789,480	1,880,317	26,616	286,709
Idle equipment	-	-	-	-
Construction in progress	46,521	-	-	-
	39,755,690	9,556,351	4,394,222	2,016,141
Less: accumulated depreciation	20,933,491	4,164,984	3,587,791	814,355
	$ 18,822,199	$ 5,391,367	$ 806,431	$ 1,201,786

Chimes International Limited		Family-Child Resources, Inc.		Holcomb Associates, Inc.		Open Door, Inc.		Chester County Council on Addictive Diseases, Inc.		Chimes Foundation, Incorporated		Totals
$	-	$	250,270	$	580,500	$	100,000	$	-	$	7,907	$ 4,859,083
	-		1,681,525		3,574,244		548,681		-		-	39,049,801
	1,338		-		-		-		-		-	325,585
	55,707		-		1,009,100		-		-		-	7,369,704
	7,030,664		119,495		1,171,750		132,724		13,604		-	17,366,097
	720,949		-		891,053		69,814		-		-	4,664,938
	-		-		363,370		-		-		-	363,370
	-		-		-		-		-		-	46,521
	7,808,658		2,051,290		7,590,017		851,219		13,604		7,907	74,045,099
	6,985,385		689,389		2,764,147		339,526		8,065		-	40,287,133
$	823,273	$	1,361,901	$	4,825,870	$	511,693	$	5,539	$	7,907	$ 33,757,966

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING AND COMBINING SCHEDULE OF ACTIVITIES
For the Year Ended June 30, 2015

	The Chimes, Inc and Related Entity	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
REVENUE AND OTHER SUPPORT					
Mental health services	$ -	$ -	$ -	$ -	$ -
Developmental disabilities services	49,031,513	25,990,887	-	5,881,924	-
Employment contractual services	4,111,694	-	74,080,842	-	-
Management Fees	-	-	-	-	8,897,626
Donations and grants	27,075	-	-	-	-
Miscellaneous	328,187	93,586	16,125	3,861	117,621
Fundraising income, net of fundraising expenses of $406,080	-	-	-	-	-
Total revenue and other support	53,498,469	26,084,473	74,096,967	5,885,785	9,015,247
EXPENSES					
Program services					
Mental health services	-	-	-	-	-
Developmental disabilities services	45,555,973	22,486,304	-	4,703,742	-
Employment contractual services	4,813,238	-	62,444,949	-	-
Grants	-	-	-	-	-
Total program expenses	50,369,211	22,486,304	62,444,949	4,703,742	-
Supporting services					
Administrative	3,816,347	3,565,627	9,021,522	922,135	9,363,403
Fundraising	-	-	-	-	-
Total supporting services	3,816,347	3,565,627	9,021,522	922,135	9,363,403
Total expenses	54,185,558	26,051,931	71,466,471	5,625,877	9,363,403
OPERATING INCOME	(687,089)	32,542	2,630,496	259,908	(348,156)
OTHER INCOME (LOSS)					
Investment income	-	-	-	-	-
Gain on interest rate swap	-				(122,759)
Gain (loss) on sale of assets	46,098	-	(778)	-	7,000
Net other income (loss)	46,098	-	(778)	-	(115,759)
CHANGES IN NET ASSETS BEFORE TRANSFER OF NET ASSETS	(640,991)	32,542	2,629,718	259,908	(463,915)
Gain on acquisition of Chester County Council on Addictive Diseases, Inc.	-	-	-	-	-
CHANGES IN NET ASSETS	(640,991)	32,542	2,629,718	259,908	(463,915)
NET ASSETS (DEFICIENCY), Beginning	8,414,053	3,374,312	7,065,202	2,111,031	(2,379,036)
NET ASSETS (DEFICIENCY), Ending	$ 7,773,062	$ 3,406,854	$ 9,694,920	$ 2,370,939	$ (2,842,951)

See independent auditors' report on supplementary information.

Family-Child Resources, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chester County Concil on Addictive Diseases, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 86,258	$ 24,335	$ 173,455	$ 61,610	$ 1,520,673	$ -	$ 7,579,319
56,815	4,705,243	175,178	255,918	2,879	-	25,690,813
-	-	-	-	93,274	-	93,274
-	258,101	17,797	-	11,700	-	1,103,245
-	-	-	-	75,000	-	75,000
-	-	-	-	181,825	(181,825)	-
-	-	-	-	5,403,969	-	5,403,969
4,049	1,375,688	59,820	-	120,064	(105,937,463)	-
147,122	6,363,367	426,250	317,528	7,409,384	(106,119,288)	39,945,620
-	-	-	-	311,740	-	311,740
1,407,202	4,852,757	540,709	7,956	7,907	-	35,144,322
-	-	-	-	-	-	254,279
-	-	-	-	89,434	-	89,434
-	-	-	-	2,022,464	(2,022,464)	-
-	64,742	-	-	-	-	64,742
-	-	-	-	1,033,717	-	1,033,717
-	109,196	-	-	4,367	-	567,621
1,407,202	5,026,695	540,709	7,956	3,469,629	(2,022,464)	37,465,855
$ 1,554,324	$ 11,390,062	$ 966,959	$ 325,484	$ 10,879,013	$(108,141,752)	$ 77,411,475

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING AND COMBINING STATEMENT OF FINANCIAL POSITION - CONTINUED
June 30, 2015

	The Chimes, Inc and Related Entity	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current maturities of long-term debt	$ 154,547	$ 137,157	$ -	$ 49,667	$ 183,135
Short term borrowings	-	-	-	-	1,910,810
Accounts payable	819,103	344,517	2,370,691	64,614	406,920
Accrued expenses and other liabilities	3,478,635	1,364,513	6,963,165	303,692	3,387,527
Deferred revenue	306,601	-	198,160	-	-
Deferred rent	-	-	-	-	-
Due to third party payors	1,821,600	-	-	6,629	-
Due to related parties	41,548,664	2,061,814	28,533,878	2,809,715	29,533,116
Total current liabilities	48,129,150	3,908,001	38,065,894	3,234,317	35,421,508
LONG-TERM LIABILITIES					
Bonds payable	-	1,917,608	-	-	-
Mortgages and notes payable	1,813,127	1,189,212	-	620,833	4,885,165
Interest rate swap	-	-	-	-	122,759
Deferred compensation and postemployment benefit obligation	-	-	-	-	726,987
Total long-term liabilities, net of current maturities	1,813,127	3,106,820	-	620,833	5,734,911
Total liabilities	49,942,277	7,014,821	38,065,894	3,855,150	41,156,419
NET ASSETS					
Unrestricted					
Undesignated	7,773,062	3,406,854	9,694,920	2,370,939	(2,842,951)
Board designated	-	-	-	-	-
	7,773,062	3,406,854	9,694,920	2,370,939	(2,842,951)
Temporarily restricted	-	-	-	-	-
Permanently restricted	-	-	-	-	-
Total net assets	7,773,062	3,406,854	9,694,920	2,370,939	(2,842,951)
TOTAL LIABILITIES AND NET ASSETS	$ 57,715,339	$ 10,421,675	$ 47,760,814	$ 6,226,089	$ 38,313,468

Family-Child Resources, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chester County Council on Addictive Diseases, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ -	$ 102,272	$ -	$ -	$ -	$ (181,825)	$ 444,953
-	1,935,978	-	-	-	-	3,846,788
4,736	595,807	96,612	46,248	77,018	-	4,826,266
76,227	1,442,090	104,340	49,587	-	-	17,169,776
-	166,047	-	3,180	-	-	673,988
-	143,962	-	-	-	-	143,962
-	-	-	-	-	-	1,828,229
1,374,604	39,820	4,049	21,084	10,719	(105,937,463)	-
1,455,567	4,425,976	205,001	120,099	87,737	(106,119,288)	28,933,962
-	-	-		-	-	1,917,608
-	2,242,641	-		-	(2,022,464)	8,728,514
-	-	-	-	-	-	122,759
-	-	-	-	-	-	726,987
-	2,242,641	-	-	-	(2,022,464)	11,495,868
1,455,567	6,668,617	205,001	120,099	87,737	(108,141,752)	40,429,830
98,757	4,721,445	761,958	205,385	8,721,932	502,518	35,414,819
-	-	-	-	14,112	-	14,112
98,757	4,721,445	761,958	205,385	8,736,044	502,518	35,428,931
-	-	-	-	687,693	(502,518)	185,175
-	-	-	-	1,367,539	-	1,367,539
98,757	4,721,445	761,958	205,385	10,791,276	-	36,981,645
$ 1,554,324	$ 11,390,062	$ 966,959	$ 325,484	$ 10,879,013	$ (108,141,752)	$ 77,411,475

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING AND COMBINING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	The Chimes, Inc and Related Entity	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
REVENUE AND OTHER SUPPORT					
Mental health services	$ -	$ -	$ -	$ -	$ -
Developmental disabilities services	49,031,513	25,990,887	-	5,881,924	-
Employment contractual services	4,111,694	-	74,080,842	-	-
Management Fees	-	-	-	-	8,897,626
Donations and grants	27,075	-	-	-	-
Miscellaneous	328,187	93,586	16,125	3,861	117,621
Fundraising income, net of fundraising expenses of $406,080	-	-	-	-	-
Total revenue and other support	53,498,469	26,084,473	74,096,967	5,885,785	9,015,247
EXPENSES					
Program services					
Mental health services	-	-	-	-	-
Developmental disabilities services	45,555,973	22,486,304	-	4,703,742	-
Employment contractual services	4,813,238	-	62,444,949	-	-
Grants	-	-	-	-	-
Total program expenses	50,369,211	22,486,304	62,444,949	4,703,742	-
Supporting services					
Administrative	3,816,347	3,565,627	9,021,522	922,135	9,363,403
Fundraising	-	-	-	-	-
Total supporting services	3,816,347	3,565,627	9,021,522	922,135	9,363,403
Total expenses	54,185,558	26,051,931	71,466,471	5,625,877	9,363,403
OPERATING INCOME	(687,089)	32,542	2,630,496	259,908	(348,156)
OTHER INCOME (LOSS)					
Investment income	-	-	-	-	-
Gain on interest rate swap	-				(122,759)
Gain (loss) on sale of assets	46,098	-	(778)	-	7,000
Net other income (loss)	46,098	-	(778)	-	(115,759)
CHANGES IN NET ASSETS BEFORE TRANSFER OF NET ASSETS	(640,991)	32,542	2,629,718	259,908	(463,915)
Gain on acquisition of Chester County Council on Addictive Diseases, Inc.	-	-	-	-	-
CHANGES IN NET ASSETS	(640,991)	32,542	2,629,718	259,908	(463,915)
NET ASSETS (DEFICIENCY), Beginning	8,414,053	3,374,312	7,065,202	2,111,031	(2,379,036)
NET ASSETS (DEFICIENCY), Ending	$ 7,773,062	$ 3,406,854	$ 9,694,920	$ 2,370,939	$ (2,842,951)

See independent auditors' report on supplementary information.

Family-Child Resources, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chester County Council on Addictive Diseases, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 839,593	$ 26,039,475	$ 2,032,551	$ 731,255	$ -	$ -	$ 29,642,874
-	-	-	-	-	(1,268,630)	79,635,694
-	-	-	-	-	(395,216)	77,797,320
-	192,000	-	-	-	(8,814,287)	275,339
-	115,562	16,893	1,341	280,265	-	441,136
-	2,444	23,195	109,710	-	(146,202)	548,527
-	-	-	-	360,890	-	360,890
839,593	26,349,481	2,072,639	842,306	641,155	(10,624,335)	188,701,780
713,428	21,246,830	1,585,751	706,263	-	-	24,252,272
-	-	-	-	-	(1,663,012)	71,083,007
-	-	-	-	-	-	67,258,187
-	-	-	-	196,172	-	196,172
713,428	21,246,830	1,585,751	706,263	196,172	(1,663,012)	162,789,638
251,661	4,226,464	266,909	89,251	343,785	(9,085,692)	22,781,412
-	-	-	-	404,906	-	404,906
251,661	4,226,464	266,909	89,251	748,691	(9,085,692)	23,186,318
965,089	25,473,294	1,852,660	795,514	944,863	(10,748,704)	185,975,956
(125,496)	876,187	219,979	46,792	(303,708)	124,369	2,725,824
-	-	-	-	188,433	(124,369)	64,064
-	-	-	-	-	-	(122,759)
-	4,623	-	-	-	-	56,943
-	4,623	-	-	188,433	(124,369)	(1,752)
(125,496)	880,810	219,979	46,792	(115,275)	-	2,724,072
-	-	-	158,593	-	-	158,593
(125,496)	880,810	219,979	205,385	(115,275)	-	2,882,665
224,253	3,840,635	541,979	-	10,906,551	-	34,098,980
$ 98,757	$ 4,721,445	$ 761,958	$ 205,385	$ 10,791,276	$ -	$ 36,981,645

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING AND COMBINING SCHEDULE OF LAND, BUILDINGS AND EQUIPMENT
June 30, 2015

	The Chimes, Inc and Related Entity	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.
Land	$ 2,683,881	$ 880,048	$ -	$ 155,053
Buildings and improvements	27,392,386	4,823,847	-	777,501
Land improvements	272,342	-	-	6,320
Automobiles	3,652,427	605,042	1,390,595	444,109
Furnishings and equipment	4,931,236	1,316,786	3,061,421	335,977
Leasehold improvements	794,051	1,762,336	26,616	316,518
	39,726,323	9,388,059	4,478,632	2,035,478
Less: accumulated depreciation	20,083,190	3,670,125	3,942,195	712,341
	$ 19,643,133	$ 5,717,934	$ 536,437	$ 1,323,137

Chimes International Limited	Family-Child Resources, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chester County Council on Addictive Diseases, Inc.	Chimes Foundation, Incorporated	Totals
$ -	$ 250,000	$ 580,500	$ 100,000	$ -	$ 7,907	$ 4,657,389
-	1,681,525	3,574,244	548,681	-	-	38,798,184
-	-	-	-	-	-	278,662
91,707	-	1,092,638	-	-	-	7,276,518
6,786,465	106,727	1,114,895	132,724	13,604	-	17,799,835
692,201	-	891,053	69,814	-	-	4,552,589
7,570,373	2,038,252	7,253,330	851,219	13,604	7,907	73,363,177
6,463,223	631,050	2,400,573	310,510	5,648	-	38,218,855
$ 1,107,150	$ 1,407,202	$ 4,852,757	$ 540,709	$ 7,956	$ 7,907	$ 35,144,322