GORFINE, SCHILLER & GARDYN, P.A.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

TABLE OF CONTENTS

June 30, 2014 and 2013

GORFINE, SCHILLER & GARDYN, P.A.
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Chimes International Limited and Related Entities, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, the related notes to the consolidated financial statements, and the consolidated statement of functional expenses for the year ended June 30, 2014.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 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 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 financial statements are free from material misstatement.

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

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

10045 Red Run Boulevard, Suite 250
Owings Mills, Maryland 21117
TEL 410-356-5900 800-333-0272
FAX 410-581-0368

240 S. Potomac Street, Suite 305
Hagerstown, Maryland 21740
TEL 301-739-9000
FAX 301-739-8345

Member of PKF North America
An association of legally independent firms
www.GSG-cpa.com

Opinion

In our opinion, the consolidated 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, 2014 and 2013, 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, 2013, consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 16, 2013. In our opinion, the summarized comparative information presented on the consolidated statement of functional expenses as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Gorfine, Schiller + Gardyn, P.A.

November 12, 2014
Owings Mills, Maryland

CONSOLIDATED FINANCIAL STATEMENTS

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,648,701	$ 7,918,879
Accounts receivable, net of allowance for doubtful accounts	26,162,087	23,335,934
Pledges receivable	110,459	84,649
Prepaid expenses	862,991	1,000,975
Current portion of loans receivable	50,000	-
Investments, current	5,254,404	4,564,357
Total current assets	39,088,642	36,904,794
NONCURRENT ASSETS		
Land, buildings and equipment, net of accumulated depreciation	35,813,076	36,241,868
Intangible assets, net of accumulated amortization	439,017	189,325
Long-term pledges receivable, net of allowance for doubtful accounts	288,487	418,138
Cash - deferred compensation plan	54,185	36,042
Investments, long-term	1,179,483	1,086,576
Other noncurrent assets	510,699	410,687
Total noncurrent assets	38,284,947	38,382,636
TOTAL ASSETS	$ 77,373,589	$ 75,287,430

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

	2014	2013
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 460,680	$ 427,143
Short-term borrowings	8,543,002	9,166,936
Accounts payable	4,275,424	4,589,900
Accrued expenses and other liabilities	15,537,198	15,715,328
Deferred revenue and refundable advances	517,960	307,190
Deferred rent	99,980	26,578
Due to third-party payors	1,673,102	1,137,017
Total current liabilities	31,107,346	31,370,092
LONG-TERM LIABILITIES		
Bonds payable	2,006,425	6,781,631
Mortgages and notes payable	9,039,591	3,705,017
Interest rate swap	-	437,446
Deferred compensation and postemployment benefit obligation	1,121,247	1,000,055
Total long-term liabilities, net of current maturities	12,167,263	11,924,149
Total liabilities	43,274,609	43,294,241
NET ASSETS		
Unrestricted		
Undesignated	32,380,717	30,498,546
Board designated	14,782	13,249
	32,395,499	30,511,795
Temporarily restricted	193,844	173,728
Permanently restricted	1,509,637	1,307,666
Total net assets	34,098,980	31,993,189
TOTAL LIABILITIES AND NET ASSETS	$ 77,373,589	$ 75,287,430

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Mental health services	$ 26,219,032	$ -	$ -	$ 26,219,032
Developmental disabilities services	78,355,052	-	-	78,355,052
Employment contractual services	73,955,802	-	-	73,955,802
Management fees	79,611	-	-	79,611
Donations and grants	303,256	-	-	303,256
Miscellaneous	183,673	-	-	183,673
Fundraising income, net of fundraising expenses of $425,234	205,177	-	-	205,177
Total revenue and other support	179,301,603	-	-	179,301,603
EXPENSES				
Program services				
Mental health services	21,842,629	-	-	21,842,629
Developmental disabilities services	70,485,660	-	-	70,485,660
Employment contractual services	64,047,432	-	-	64,047,432
Grants	29,974	-	-	29,974
Total program services	156,405,695	-	-	156,405,695
Supporting services				
Administrative expenses	21,324,360	-	-	21,324,360
Fundraising expenses	101,967	-	-	101,967
Total supporting services	21,426,327	-	-	21,426,327
Total expenses	177,832,022	-	-	177,832,022
OPERATING INCOME	1,469,581	-	-	1,469,581
OTHER INCOME (EXPENSE)				
Investment income	680,117	82,225	201,971	964,313
Loss on sale of assets	(328,103)	-	-	(328,103)
Net other income (expense)	352,014	82,225	201,971	636,210
CHANGES IN NET ASSETS	1,821,595	82,225	201,971	2,105,791
NET ASSETS, Beginning of year	30,105,851	579,672	1,307,666	31,993,189
NET ASSETS, End of year	$ 31,927,446	$ 661,897	$ 1,509,637	$ 34,098,980

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

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED
For the Years Ended June 30, 2014 and 2013

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Mental health services	$ 26,919,280	$ -	$ -	$ 26,919,280
Developmental disabilities services	75,585,925	-	-	75,585,925
Employment contractual services	79,425,931	-	-	79,425,931
Management fees	82,810	-	-	82,810
Donations and grants	765,013	-	995	766,008
Miscellaneous	193,542	-	-	193,542
Fundraising income, net of fundraising expenses of $354,651	265,822	-	-	265,822
Net assets released from restrictions	5,308	(5,308)	-	-
Total revenue and other support	183,243,631	(5,308)	995	183,239,318
EXPENSES				
Program services				
Mental health services	22,639,520	-	-	22,639,520
Developmental disabilities services	67,858,027	-	-	67,858,027
Employment contractual services	69,525,099	-	-	69,525,099
Grants	44,453	-	-	44,453
Total program services	160,067,099	-	-	160,067,099
Supporting services				
Administrative expenses	21,160,099	-	-	21,160,099
Fundraising expenses	48,665	-	-	48,665
Total supporting services	21,208,764	-	-	21,208,764
Total expenses	181,275,863	-	-	181,275,863
OPERATING INCOME	1,967,768	(5,308)	995	1,963,455
OTHER INCOME (EXPENSE)				
Investment income	635,940	23,556	248,809	908,305
Gain on interest rate swap	165,019	-	-	165,019
Gain on sale of assets	71,738	-	-	71,738
Net other income (expense)	872,697	23,556	248,809	1,145,062
CHANGES IN NET ASSETS BEFORE TRANSFER OF NET ASSETS	2,840,465	18,248	249,804	3,108,517
Gain on acquisition of Family-Child Resources, Inc.	696,343	5,308	-	701,651
CHANGES IN NET ASSETS	3,536,808	23,556	249,804	3,810,168
NET ASSETS, Beginning of year	26,569,043	556,116	1,057,862	28,183,021
NET ASSETS, End of year	$ 30,105,851	$ 579,672	$ 1,307,666	$ 31,993,189

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

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

	2014									2013
	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**
Salaries and benefits	$ 16,214,940	$ 53,915,510	$ 45,175,145	$ -	$ 115,305,595	$ 13,254,179	$ -	$ 13,254,179	$ 128,559,774	$ 131,737,466
Consulting and contractual	867,126	690,140	58,832	-	1,616,098	1,309,399	-	1,309,399	2,925,497	2,662,748
Office and administrative	1,131,420	753,953	2,586,162	-	4,471,535	3,874,463	23,642	3,898,105	8,369,640	8,496,997
Vehicles, transport and travel	427,775	3,639,882	352,206	-	4,419,863	298,852	-	298,852	4,718,715	4,816,764
Facilities	2,367,158	7,617,285	417,909	-	10,402,352	2,026,345	-	2,026,345	12,428,697	11,703,497
Janitorial sub-contracts	-	-	10,850,005	-	10,850,005	13,162	-	13,162	10,863,167	11,217,182
Fundraising expenses	-	-	-	-	-	-	78,325	78,325	78,325	26,388
Grant and other distributions	-	-	-	109,727	109,727	-	-	-	109,727	186,574
Training supplies, equipment and personal supplies	697,317	3,569,971	3,988,998	-	8,256,286	273,767	-	273,767	8,530,053	9,273,021
Depreciation and amortization	136,893	1,950,375	512,804	-	2,600,072	1,036,649	-	1,036,649	3,636,721	3,489,648
Management fees	-	-	105,371	-	105,371	8,494,512	-	8,494,512	8,599,883	8,591,508
Total before eliminations	21,842,629	72,137,116	64,047,432	109,727	158,136,904	30,581,328	101,967	30,683,295	188,820,199	192,201,793
Eliminations	-	(1,651,456)	-	(79,753)	(1,731,209)	(9,256,968)	-	(9,256,968)	(10,988,177)	(10,908,777)
TOTAL	$ 21,842,629	$ 70,485,660	$ 64,047,432	$ 29,974	$ 156,405,695	$ 21,324,360	$ 101,967	$ 21,426,327	$ 177,832,022	$ 181,293,016

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

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and June 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 2,105,791	$ 3,810,168
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	3,509,601	3,473,388
Amortization	127,120	16,260
Provision for bad debts	627,434	547,050
Unrealized gain on investments	(476,582)	(593,367)
Gain on interest rate swap	-	(165,019)
Loss (gain) on sale of land, buildings and equipment	328,103	(71,738)
Gain on acquisition of Family-Child Resources, Inc.	-	(701,651)
Changes in operating assets and liabilities:		
Accounts receivable	(3,453,587)	(3,282,170)
Pledges receivable	103,841	96,979
Prepaid expenses	137,984	29,631
Due to third-party payors	536,085	(804,533)
Other noncurrent assets	(100,012)	118,560
Accounts payable	(314,476)	(665,364)
Accrued expenses and other liabilities	(178,130)	2,233,377
Deferred compensation and postemployment benefit obligation	103,049	89,036
Deferred rent	73,402	(67,743)
Deferred revenue and refundable advances	210,770	(116,232)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,340,393	3,946,632
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,777,822)	(3,952,523)
Disbursement for loans receivable	(50,000)	-
Acquisition of land, buildings and equipment	(3,458,353)	(4,923,810)
Proceeds from sales of land, buildings and equipment	49,441	139,225
Proceeds from sales of investments	4,034,004	2,366,886
NET CASH USED IN INVESTING ACTIVITIES	(4,579,542)	(6,370,222)
CASH FLOW FROM FINANCING ACTIVITIES		
Payments on bonds	(4,926,688)	(223,212)
Payments on capital lease obligations	(11,517)	(21,945)
Payments on mortgages and notes	(169,890)	(334,259)
Proceeds from mortgages and notes	5,701,000	1,360,000
Borrowings (payments) on short-term borrowings, net	(623,934)	2,704,197
Proceeds from acquisition of Family-Child Resources, Inc.	-	121,785
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(31,029)	3,606,566
CHANGES IN CASH AND CASH EQUIVALENTS	(1,270,178)	1,182,976
CASH AND CASH EQUIVALENTS, including restricted cash, Beginning of year	7,918,879	6,735,903
CASH AND CASH EQUIVALENTS, including restricted cash, End of year	$ 6,648,701	$ 7,918,879

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.

On July 1, 2012, Family-Child Resources Inc. (FCR) became an affiliate of Holcomb. FCR, a Pennsylvania corporation founded in 1991, provides early intervention and support services to individuals and families primarily in York, Pennsylvania.

Chimes Employment Services, LLC (CES), a disregarded entity of The Chimes Inc., was founded January 1, 2014. CES provides employment services for the economically disadvantaged.

The following is a summary of entities related to the Organization, which are included in the consolidated 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 Services Association, Inc. (Family Services)	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)	The Chimes, Inc. has sole membership

NOTE A – NATURE OF OPERATIONS – Continued

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue 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 financial statements since the services do not meet the criteria requiring consolidated 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 statements of activities as net assets released from restrictions.

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, 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.

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. Included in cash and cash equivalents on the consolidated statements of financial position is restricted cash of $307,780 and $198,985 pertaining to the permanently restricted net assets (See Note L) as of June 30, 2014 and 2013, respectively.

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, 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, 2014 and 2013, management recorded an allowance for doubtful accounts of $1,711,558 and $1,424,716, 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:

	2014	2013
Receivable in less than 1 year	$ 110,459	$ 84,649
Receivable in 1 to 5 years	302,453	443,138
Total unconditional pledges receivable	412,912	527,787
Less allowance for doubtful accounts	(13,966)	(25,000)
Total unconditional pledges receivable	$ 398,946	$ 502,787

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 discounts to net present value were immaterial and hence 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.

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 statements of financial position. Gains and losses on investments resulting from their measurement at fair value are reported in the consolidated 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 revenue.

11. Intangible Assets

Intangible assets consist of bond and note issuance costs. Bond 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. 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 S) 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, 2011 and after are still open.

13. 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.

14. 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, 2014 and 2013 was not material.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

15. 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 statements of activities as a gain on acquisition of new affiliate.

16. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 12, 2014, the date the consolidated financial statements were available to be issued.

On July 1, 2014, Family Services transferred all its assets and liabilities to Open Door.

On July 1, 2014, the Council of Addictive Disease Group (COAD) became an affiliate of Holcomb. COAD, a Pennsylvania corporation founded in 1964, provides substance use/abuse prevention, intervention and education; public safety and mental health services primarily in Chester County, Pennsylvania.

17. Reclassifications

Certain reclassifications have been made to the prior year consolidated 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, 2014 and 2013 are as follows:

	2014	2013
Land	$ 4,657,389	$ 4,228,810
Buildings and improvements	38,982,603	37,301,358
Land improvements	277,835	246,975
Automobiles	6,177,261	5,788,331
Furnishings and equipment	16,598,288	16,823,102
Leasehold improvements	3,191,705	2,477,912
Construction in progress	23,192	860,335
Total land, buildings and equipment	69,908,273	67,726,823
Less: accumulated depreciation	34,095,197	31,484,955
Net land, buildings and equipment	$35,813,076	$36,241,868

Depreciation on these assets for the years ended June 30, 2014 and 2013 was $3,509,601 and $3,473,388, respectively.

NOTE D – INTANGIBLE ASSETS

Intangible assets at June 30, 2014 and 2013 are as follows:

	2014	2013
Bond and note issue costs	$ 452,767	$ 261,455
Less: accumulated amortization	13,750	72,130
Net intangible assets	$ 439,017	$ 189,325

Amortization expense was $16,260 and $16,260 for the years ended June 30, 2014 and 2013, respectively. Amortization expense for the next five years will be $10,141 each year.

NOTE E – INVESTMENTS

Investments included in the Organization's consolidated statements of financial position at June 30, 2014 and 2013 are as follows:

	2014		2013	
	Cost	Market Value	Cost	Market Value
Corporate bonds	$1,228,557	$1,240,215	$1,469,989	$1,377,829
Common stocks	2,943,149	4,038,558	2,586,931	3,288,390
Mutual funds	569,496	797,031	513,699	699,980
Certificates of deposit	357,637	358,083	285,163	284,734
	$5,098,839	$6,433,887	$4,855,782	$5,650,933

As described in Note K, included in the above investments are temporarily restricted investments in the amount of $193,844 and $173,728 as of June 30, 2014 and 2013, respectively. As described in Note L, included in the above investments are permanently restricted investments in the amount of $1,179,483 and $1,086,576 as of June 30, 2014 and 2013, respectively.

NOTE E – INVESTMENTS – Continued

The following schedule summarizes the investment income and its classification in the consolidated statements of activities for the years ended June 30, 2014 and 2013:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 148,205	$ 4,029	$ 14,859	$ 167,093
Gains (losses) - net	597,082	13,295	186,843	797,220
	$ 745,287	$ 17,324	$ 201,702	$ 964,313

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 119,907	$ 5,733	$ 10,882	$ 136,522
Gains (losses) - net	516,033	17,823	237,927	771,783
	$ 635,940	$ 23,556	$ 248,809	$ 908,305

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.

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.

NOTE E – INVESTMENTS – Continued

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 after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. 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. Therefore, the Organization expects its endowment assets, over time, to produce an average annual rate of return in excess of the S&P 500 Index for equity securities, and the Barclays Intermediate Bond Fund for fixed income investments. Actual returns in any given year may vary from this amount. 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:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment, beginning of year	$291,329	$ -	$ 1,307,666	$ 1,598,995
Investment income	34,672	-	201,971	236,643
Endowment, end of year	$326,001	$ -	$ 1,509,637	$ 1,835,638

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment, beginning of year	$265,055	$ -	$ 1,057,862	$ 1,322,917
Contributions	-	-	995	995
Investment income	26,274	-	248,809	275,083
Endowment, end of year	$291,329	$ -	$ 1,307,666	$ 1,598,995

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, 2014 and 2013.

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.

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.

Certificates of deposit: 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 at fair value as of:

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Certificates of deposit	$ 358,083	$ -	$ -	$ 358,083
Common stocks				
Basic materials	507,160	-	-	507,160
Consumer goods	155,684	-	-	155,684
Financial	426,658	-	-	426,658
Healthcare	88,559	-	-	88,559
Industrial goods	630,178	-	-	630,178
Services	720,508	-	-	720,508
Technology	1,237,278	-	-	1,237,278
Utilities	148,588	-	-	148,588
Other	123,945	-	-	123,945
Total common stocks	4,038,558	-	-	4,038,558
Mutual funds				
Moderate allocation fund	263,138	-	-	263,138
Large blend fund	533,893	-	-	533,893
Total mutual funds	797,031	-	-	797,031
Bonds				
A1	-	50,920	-	50,920
A2	-	62,802	-	62,802
A3	-	40,779	-	40,779
Aa1	-	25,892	-	25,892
B1	-	236,756	-	236,756
B3	-	189,486	-	189,486
Baa1	-	123,238	-	123,238
Baa2	-	220,718	-	220,718
Baa3	-	105,740	-	105,740
CAA1	-	183,884	-	183,884
Total bonds	-	1,240,215	-	1,240,215
Total assets at fair value	$ 5,193,672	$ 1,240,215	$ -	$ 6,433,887

NOTE F – FAIR VALUE MEASUREMENTS – Continued

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Certificates of deposit	$ 284,734	$ -	$ -	$ 284,734
Common stocks				
Basic materials	414,681	-	-	414,681
Consumer goods	60,229	-	-	60,229
Financial	443,618	-	-	443,618
Healthcare	75,608	-	-	75,608
Industrial goods	576,716	-	-	576,716
Services	575,053	-	-	575,053
Technology	994,996	-	-	994,996
Utilities	59,007	-	-	59,007
Other	88,482	-	-	88,482
Total common stocks	3,288,390	-	-	3,288,390
Mutual funds				
Moderate allocation fund	215,166	-	-	215,166.00
Large blend fund	484,814	-	-	484,814
Total mutual funds	699,980	-	-	699,980
Bonds				
A1	-	25,089	-	25,089
A2	-	10,268	-	10,268
A3	-	98,543	-	98,543
Aa1	-	25,916	-	25,916
Aa3	-	25,863	-	25,863
B	-	38,760	-	38,760
B-	-	81,861	-	81,861
B1	-	162,800	-	162,800
Ba1	-	59,790	-	59,790
Ba2	-	33,199	-	33,199
Baa1	-	171,366	-	171,366
Baa2	-	113,545	-	113,545
Baa3	-	134,631	-	134,631
CAA1	-	396,199	-	396,199
Total bonds	-	1,377,829	-	1,377,829
Interest rate swap	-	(437,446)	-	(437,446)
Total assets at fair value	$ 4,273,104	$ 940,383	$ -	$ 5,213,487

NOTE G – SHORT-TERM BORROWINGS

International has a $7,500,000 revolving credit note (loan) with PNC Bank (PNC) due on demand. On April 30, 2012, the loan limit was decreased to $6,250,000. The loan requires the Organization to comply with several covenants. The loan is collateralized by most properties of Chimes – Maryland, is cross-collateralized and cross-defaulted with all other loans to the borrower and related entities. The loan bears interest at the Daily LIBOR Rate plus three percent (3.24% as of June 30, 2014). The loan was paid off on June 30, 2014 and subsequently refinanced with Susquehanna Bank. The new note has a $13,000,000 revolving credit note (loan) with Susquehanna Bank (Susquehanna) 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, 2014). The loan is scheduled to expire June 30, 2016. The outstanding balance at June 30, 2014 and 2013 was $4,343,541 and $4,964,286, respectively.

Chimes – DC has a $10,000,000 revolving credit note (loan) with PNC, due on demand. The loan is collateralized by a first lien on certain accounts receivable, and is cross-collateralized and cross-defaulted with all other loans to the borrower and related entities. The loan bears interest at the Daily LIBOR Rate plus three percent (3.24% as of June 30, 2014). The loan was paid off on June 30, 2014 and subsequently refinanced with Susquehanna Bank. The new note is a $10,000,000 revolving credit note (loan) with Susquehanna, 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, 2014). The loan is scheduled to expire June 30, 2016. The outstanding balance at June 30, 2014 and 2013 was $3,614,461 and $3,527,650, respectively.

Holcomb has a $1,500,000 working capital line of credit (working capital line) with Susquehanna Bank (Susquehanna) collateralized by business assets bearing interest at Susquehanna's prime rate minus .50%, but not to be less than 3.50% (3.50% as of June 30, 2014). The working capital line expires on September 26, 2015. The outstanding balance at June 30, 2014 and 2013 was $400,000 and $500,000, respectively.

Holcomb also has a $500,000 real estate purchasing agent line of credit (real estate line) with Susquehanna bearing interest at Susquehanna's prime rate minus .50%, but not to be less than 4.25% (4.25% as of June 30, 2014 and 2013). The real estate line is collateralized by four properties, three of which are being held as mortgages by Susquehanna (See Note I) and one that is directly owned by Holcomb. The real estate line expired on February 28, 2014. There were no outstanding borrowings as of June 30, 2014 and 2013.

Family-Child Recourses, Inc. has a $300,000 revolving line of credit with Metro Bank (Metro) collateralized by business assets bearing interest at 4.25%. The line of credit is guaranteed by Holcomb and Holcomb has to comply with a debt coverage ratio covenant. As of June 30, 2014, Metro Bank waived the covenant. The outstanding balance at June 30, 2014 and 2013 was $185,000 and $175,000, respectively.

NOTE H – BONDS PAYABLE

Maryland Health and Higher Educational Facilities Authority – 2008 Series
On October 27, 2008 Maryland Health and Higher Educational Facilities Authority (MHHEFA) issued $5,610,000 revenue bonds (Series 2008) to Chimes – Maryland. The purpose of the bonds are to finance and refinance a portion of the costs of the acquisition, construction, renovation and equipping of Chimes School (the School) (a non-collegiate educational facility) and to pay off three outstanding bonds. The payment of the bonds were secured by an irrevocable, transferable letter of credit from PNC, which was expected to expire October 30, 2014. The bonds were scheduled to mature July 1, 2033 and bore interest at a convertible interest rate. The bonds payable balance as of June 30, 2014 and 2013 was $-0- and $4,832,219, respectively. The bond was paid off as of June 30, 2014.

In December 2008, Chimes – Maryland executed an interest rate swap agreement in the initial notional amount of $5,610,000 to limit the exposure on the floating interest rate of the Series 2002 Bonds to a fixed interest rate of 3.03%. The agreement terminates July 1, 2019. For the years ended June 30, 2014 and 2013, respectively Chimes – Maryland recognized an unrealized gain (loss) related to the swap in the amounts of $-0- and $165,019, the agreement was eliminated with the payment of the Maryland Health and Higher Educational Facilities Authority Bond on June 30, 2014.

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. The bonds require the Organization to have audited consolidated financial statements due no more than 120 days after year end. 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%. The bonds payable balance as of June 30, 2014 and 2013 was $2,097,660 and $2,192,026, respectively.

Principal payable maturities of the bonds for the next five years and thereafter as of June 30, 2014 are as follows:

Years ending June 30,	2015	$	91,235
	2016		88,176
	2017		87,200
	2018		90,807
	2019		94,563
	Thereafter		1,645,680
			2,097,660
	Less: current maturities		91,235
		$	2,006,425

Interest expense related to lines of credit, bonds payable, mortgages and notes payable and capital leases included in the consolidated statements of activities for the years ended June 30, 2014 and 2013 was $582,952 and $578,329, respectively.

NOTE I – MORTGAGES AND NOTES PAYABLE

Mortgages and notes payable at June 30, are as follows:	2014	2013
Mortgage payable to bank, payable until February 2015, monthly installments of $469 including interest at 7.75%, collateralized by a building. Subsequent to year end, this mortgage was paid off. (Chimes- Maryland)	$ 3,644	$ 8,769
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)	456,000	-
Note payable to a bank, payable until July 2019, monthly installments of $14,725 plus interest equal to the sum of (a) 200 basis points and (b) the LIBOR rate, with the remaining balance due July 2019. The note is collateralized by real estate. See Note H. (International)	5,245,000	-
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 - Deleware)	1,283,956	1,327,320
Mortgage payable to a bank dated March 1, 1999, collateralized by the property at 290 Kirk Lane, Media, Pennsylvania. The loan is for a term of 300 months with a variable interest rate based on the bank's base lending rate. Currently, the monthly payment of principal and interest is $1,120, with interest at 4.35% per annum. (Holcomb)	96,948	104,468
Mortgage payable to a bank 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 at 5.48% per annum and is 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, 2013 and 2012 was 4.23%. Currently, the monthly payment of principal and interest is $1,973. (Holcomb)	197,301	211,805
Mortgage payable to a bank 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 a variable interest rate of 5.875% at June 30, 2014. Currently, the monthly payment of principal and interest is $1,464. (Holcomb)	132,978	142,358
Sub-total balance forward	$ 7,415,827	$ 1,794,720

NOTE I – MORTGAGES AND NOTES PAYABLE – Continued

	2014	2013
Sub-total carried forward	$ 7,415,827	$ 1,794,720
Mortgage payable to a bank 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 4.5%. 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)	995,657	1,025,622
Mortgage payable to a bank 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 $1,078, with interest at the current rate of 4.125% per annum. (Holcomb)	114,422	122,729
Mortgage payable to a bank with interest payable at 7% until September 2012. Effective September 2012, the interest rate was reduced to 4.99% until September 2013 at which time the interest rate shall be changed to Wall Street Journal Prime plus 1%, with an interest rate floor of 4.5%; mortgage collateralized by land and building at 3995 East Market Street; matures September 2027; monthly payments of principal and interest of $4,440 through September 2013 and will be $5,239 from October 2013 until maturity, guaranteed by Holcomb. Holcomb has to comply with a debt coverage ratio covenant. As of June 30, 2014, the the bank waived this covenant. (FCR)	624,157	653,426
Note payable to a bank with interest payable at 7% until September 2012. Effective September 2012, the interest rate was reduced to 4.99% until September 2013 ar which time the interest rate shall be changed to Wall Street Journal Prime plus 1%, with an interest rate floor of 4.5%; mortgage collateralized by a second mortgage on the Organization's real estate; matures September 2027; monthly payments of principal and interest of $2,314 through September 2013 and will be $3,145 from October 2013 until maturity, guaranteed by Holcomb. Holcomb has to comply with a debt coverage ratio covenant. As of June 30, 2014, the bank waived this covenant. (FCR)	258,973	281,532
Total	9,409,036	3,878,029
Less: current maturities	369,445	173,012
	$ 9,039,591	$ 3,705,017

NOTE I – MORTGAGES AND NOTES PAYABLE – Continued

Payments of principal during the next five years and thereafter as of June 30, 2014, are as follows:

Years ending June 30,	2015	$ 369,445
	2016	396,588
	2017	415,839
	2018	1,517,453
	2019	398,229
	Thereafter	6,311,482
		$ 9,409,036

NOTE J – BOARD DESIGNATED NET ASSETS

Board designated net assets of $14,782 and $13,249 as of June 30, 2014 and 2013, respectively, were available for the purpose of the Parnella Fund.

NOTE K – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2014 and 2013, was available for the following purposes:

	2014	2013
Tina Hyatt Fund	$ 193,844	$ 173,728
Chimes - Delaware board restriction	468,053	405,944
Total temporarily restricted net assets	661,897	579,672
Less: amounts eliminated in consolidation	468,053	405,944
Net temporarily restricted net assets	$ 193,844	$ 173,728

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 $468,053 and $405,944 as of June 30, 2014 and 2013, respectively, and has been eliminated on these consolidated financial statements.

NOTE L – 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.

NOTE L – PERMANENTLY RESTRICTED NET ASSETS – Continued

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, 2014 and 2013, The Chimes Foundation had segregated those earnings and added them to the informally identified investment.

In 2012, The Chimes Foundation received $20,000 to establish an award in the name of Ina and Norman Lampner. Additional gifts totaling $995 were received during the year ended June 30, 2013. 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, 2014 and 2013, consist of the following:

	2014	2013
Weinberg Endowment Fund	$ 1,487,263	$ 1,285,561
Ina and Norman Lampner Fund	22,374	22,105
	$ 1,509,637	$ 1,307,666

NOTE M – 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, 2014 and 2013 was $62,626 and $93,225, 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, 2014 and 2013 were $115,401 and $103,408, respectively.

NOTE M – RETIREMENT PLANS – Continued

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, 2014 and 2013, was $1,218,038 and $1,147,582, 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, 2014 and 2013 were $38,027 and $42,608, 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.

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 and $10,000 for the years ended June 30, 2014 and 2013, respectively. The deferred compensation asset and corresponding liability account balances was $54,185 and $36,042 as of June 30, 2014 and 2013, respectively.

Effective January 1, 2013 Chimes – Delaware entered into an employment agreement under which severance benefits are to be provided to one of its officers. Contribution expense was $72,563 and $36,281 for the years ended June 30, 2014 and 2013, respectively. The deferred compensation liability account balance was $108,844 and $36,281 as of June 30, 2014 and 2013, respectively.

FCR maintains a 403(b) Thrift Plan that covers all employees who have met certain service requirements. FCR's contribution is at the discretion of the board of directors and was set at 4% of participants' compensation through September 2009 and 0% thereafter. There were no matching contributions to the plan for the years ended June 30, 2014 and 2013.

NOTE N – 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.

NOTE N – POSTEMPLOYMENT BENEFIT OBLIGATION – Continued

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

	2014	2013
Benefit obligation	$ 970,606	$ 927,732
Plan assets at fair value	-	-
Funded status - under	$ (970,606)	$ (927,732)
Accumulated benefit obligation	N/A	N/A
Employer contributions	$ 18,572	$ 19,631
Benefits paid	-	-
Amounts recognized in the consolidated statements of financial position consist of:		
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	970,606	927,732
Amounts recognized in the consolidated statements of activities consist of:		
Transition obligation	$ -	$ 19,894
Net (gain) loss	34,754	32,861
Amounts recognized in unrestricted net assets, not yet recognized as periodic costs	$ 34,754	$ 52,755

Assumptions used in the actuarial calculations above were as follows at June 30, 2014 and 2013:

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, 2014 and 2013:

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

NOTE N – POSTEMPLOYMENT BENEFIT OBLIGATION – Continued

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	$ 128,734	$ 108,693

Employer contributions expected to be made in 2015 total $18,572 for postemployment obligations. Total expected benefit payments for the next 10 fiscal years are as follows:

Year Ended June 30,	
2015	$ 12,388
2016	37,379
2017	39,612
2018	63,567
2019	63,522
7/1/2019 - 6/30/2024	322,289

NOTE O – 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 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,	2015	$ 43,983
	2016	21,825
	2017	53,248
	2018	(7,680)
	2019	(15,804)
	Thereafter	(195,552)
		$ (99,980)

NOTE P – COMMITMENTS AND CONTINGENCIES

The States of Maryland, Delaware, 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 financial statements.

NOTE P – COMMITMENTS AND CONTINGENCIES - Continued

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, 2014 and 2013 totaled $1,718,806 and $1,952,629, 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, 2014 are as follows:

Years ending June 30,	2015	$ 2,960,279
	2016	1,696,427
	2017	1,386,737
	2018	1,035,304
	2019	430,377
	Thereafter	675,625

Rent expense included in facilities expense on the consolidated statements of functional expenses for the years ended June 30, 2014 and 2013 was $4,168,495 and $3,863,718, respectively.

The Organization acts as an agent on behalf of individuals served regarding the holding of client cash funds. At June 30, 2014 and 2013, the Organization was holding $743,212 and $839,186, respectively, in client funds, which have not been reflected in these consolidated financial statements.

Legal Contingencies:

The Organization is involved in litigation arising in the ordinary course of business. While 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 financial statements of the Organization.

Letters of Credit

The Organization holds several letters of credits with PNC. At June 30, 2014 and 2013, the letters of credit to ensure payment for workers compensation insurance totaled $4,077,000 and $4,210,000, respectively. At June 30, 2014 and 2013, the letter of credit to ensure payment of the MHHEFA Bond (see Note H) was $-0- and $4,832,219, respectively. The letters of credits were eliminated with the refinance of the bond on June 30, 2014.

NOTE Q – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the years ended June 30, 2014 and 2013 was $585,952 and $577,250, respectively.

NOTE R – 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, 2014 and 2013 is $1,673,102 and $1,137,017, respectively.

NOTE S – INVESTMENT IN CLOSELY HELD COMPANY

As of June 30, 2014, 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 $50,000 and $-0- balance for the years ended June 30, 2014 and 2013, 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 $79,611 and $82,810 for the years ending June 30, 2014 and 2013, respectively. This fee is taxable under Internal Revenue Code Section 512. For the years ended June 30, 2014 and 2013, there was no liability for unrelated business income taxes.

NOTE T – GAIN ON ACQUISITION OF FAMILY-CHILD RESOURCES, INC.

In 2013, the fair value of the identifiable assets acquired upon the acquisition of FCR exceeded the fair value of the liabilities assumed by $701,651. Accordingly, a gain on acquisition of Family-Child Resources, Inc. in the amount of $701,651 was included in the consolidated statements of activities for 2013.

SUPPLEMENTARY INFORMATION

GORFINE, SCHILLER & GARDYN, P.A.
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

REPORT ON SUPPLEMENTARY INFORMATION

Independent Auditors' Report

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

We have audited the consolidated financial statements of Chimes International Limited as of June 30, 2014 and 2013, and have issued our report thereon dated November 12, 2014, which contained an unqualified opinion on those consolidated financial statements.

Report on Supplementary Consolidating Information

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

Gorfine, Schiller + Gardyn, P.A.

November 12, 2014
Owings Mills, Maryland

10045 Red Run Boulevard, Suite 250
Owings Mills, Maryland 21117
TEL 410-356-5900 800-333-0272
FAX 410-581-0368

240 S. Potomac Street, Suite 305
Hagerstown, Maryland 21740
TEL 301-739-9000
FAX 301-739-8345

Member of PKF North America
An association of legally independent firms

www.GSG-cpa.com

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2014

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 576,929	$ 2,101,383	$ 513,272	$ 14,883	$ 1,696,417
Accounts receivable, net of allowance for doubtful accounts	3,356,916	4,175,448	14,361,383	826,143	108,067
Pledges receivable	-	-	-	-	-
Prepaid expenses	166,591	98,646	60,104	41,206	197,946
Current portion of loans receivable	-	-	-	-	-
Notes receivable from affiliates, current portion	-	-	-	-	-
Investments, current	-	-	-	-	-
Due from related parties	22,267,316	263,498	25,605,503	4,347,445	28,213,030
Total current assets	26,367,752	6,638,975	40,540,262	5,229,677	30,215,460
NONCURRENT ASSETS					
Land, buildings and equipment, net of accumulated depreciation	19,875,561	6,096,305	847,285	1,248,469	1,521,620
Intangible assets, net of accumulated amortization	11,437	62,413	-	-	365,167
Long-term pledges receivable, net	-	-	-	-	-
Note receivable from affiliates, net	-	-	-	-	-
Investments, long-term	-	-	-	-	-
Other noncurrent assets	39,801	86,674	3,248	34,236	231,290
Total noncurrent assets	19,926,799	6,245,392	850,533	1,282,705	2,118,077
TOTAL ASSETS	$ 46,294,551	$ 12,884,367	$ 41,390,795	$ 6,512,382	$ 32,333,537

Family-Child Resources, Inc.	Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 34,609	$ 2,725	$ 28,607	$ 21,097	$ 1,658,779	$ -	$ 6,648,701
129,086	12,038	3,170,920	22,086	-	-	26,162,087
-	-	-	-	110,459	-	110,459
1,107	-	279,247	18,144	-	-	862,991
-	-	-	-	50,000	-	50,000
-	-	-	-	240,850	(240,850)	-
-	-	-	-	5,254,404	-	5,254,404
-	-	266,279	621,299	57,245	(81,641,615)	-
164,802	14,763	3,745,053	682,626	7,371,737	(81,882,465)	39,088,642
1,486,426	208,425	4,164,236	356,842	7,907	-	35,813,076
-	-	-	-	-	-	439,017
-	-	-	-	288,487	-	288,487
-	-	-	-	2,203,054	(2,203,054)	-
-	-	54,185	-	-	-	54,185
-	-	-	-	1,179,483	-	1,179,483
-	-	111,083	-	4,367	-	510,699
1,486,426	208,425	4,329,504	356,842	3,683,298	(2,203,054)	38,284,947
$ 1,651,228	$ 223,188	$ 8,074,557	$ 1,039,468	$ 11,055,035	$ (84,085,519)	$ 77,373,589

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION - CONTINUED
June 30, 2014

	The Chimes, Inc.	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	$ 152,065	$ 202,752	$ -	$ 49,667	$ 161,975
Short-term borrowings	-	-	3,614,461	-	4,343,541
Accounts payable	746,197	224,923	2,066,031	54,787	383,242
Accrued expenses and other liabilities	2,810,100	1,496,017	6,688,306	291,104	2,675,342
Deferred revenue	163,725	-	286,884	-	-
Deferred rent	-	-	-	-	-
Due to third-party payors	1,666,473	-	-	6,629	-
Due to related parties	30,375,303	4,233,974	21,669,911	3,328,664	21,107,230
Total current liabilities	35,913,863	6,157,666	34,325,593	3,730,851	28,671,330
LONG-TERM LIABILITIES					
Bonds payable	-	2,006,425	-	-	-
Mortgages and notes payable	1,966,635	1,237,120	-	670,500	5,083,025
Deferred compensation and postemployment benefit obligation	-	108,844	-	-	958,218
Total long-term liabilities, net of current maturities	1,966,635	3,352,389	-	670,500	6,041,243
Total liabilities	37,880,498	9,510,055	34,325,593	4,401,351	34,712,573
NET ASSETS (DEFICIENCY)					
Unrestricted					
Undesignated	8,414,053	3,374,312	7,065,202	2,111,031	(2,379,036)
Board designated	-	-	-	-	-
	8,414,053	3,374,312	7,065,202	2,111,031	(2,379,036)
Temporarily restricted	-	-	-	-	-
Permanently restricted	-	-	-	-	-
Total net assets (deficiency)	8,414,053	3,374,312	7,065,202	2,111,031	(2,379,036)
TOTAL LIABILITIES AND NET ASSETS	$ 46,294,551	$ 12,884,367	$ 41,390,795	$ 6,512,382	$ 32,333,537

Family-Child Resources, Inc.	Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 61,622	$ -	$ 73,449	$ -	$ -	$ (240,850)	$ 460,680
185,000	-	400,000	-	-	-	8,543,002
17,440	788	694,013	7,724	80,279	-	4,275,424
67,679	4,167	1,419,738	84,745	-	-	15,537,198
103	-	28,700	9,298	29,250	-	517,960
-	-	99,980	-	-	-	99,980
-	-	-	-	-	-	1,673,102
273,623	612,222	-	1,733	38,955	(81,641,615)	-
605,467	617,177	2,715,880	103,500	148,484	(81,882,465)	31,107,346
-	-	-	-	-	-	2,006,425
821,508	-	1,463,857	-	-	(2,203,054)	9,039,591
-	-	54,185	-	-	-	1,121,247
821,508	-	1,518,042	-	-	(2,203,054)	12,167,263
1,426,975	617,177	4,233,922	103,500	148,484	(84,085,519)	43,274,609
224,253	(393,989)	3,840,635	935,968	8,720,235	468,053	32,380,717
-	-	-	-	14,782	-	14,782
224,253	(393,989)	3,840,635	935,968	8,735,017	468,053	32,395,499
-	-	-	-	661,897	(468,053)	193,844
-	-	-	-	1,509,637	-	1,509,637
224,253	(393,989)	3,840,635	935,968	10,906,551	-	34,098,980
$ 1,651,228	$ 223,188	$ 8,074,557	$ 1,039,468	$ 11,055,035	$ (84,085,519)	$ 77,373,589

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended June 30, 2014

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
REVENUE AND OTHER SUPPORT					
Mental health services	$ -	$ -	$ -	$ -	$ -
Developmental disabilities services	48,856,618	25,323,293	-	5,452,131	-
Employment contractual services	1,810,062	-	72,539,552	-	-
Management fees	-	-	-	-	8,896,089
Donations and grants	115,753	-	-	-	-
Miscellaneous	139,772	1,912	21,573	-	140,984
Fundraising income, net of fundraising expenses of $425,234	-	-	-	-	-
Total revenue, gains and other support	50,922,205	25,325,205	72,561,125	5,452,131	9,037,073
EXPENSES					
Program services					
Mental health services	-	-	-	-	-
Developmental disabilities services	45,442,310	22,336,813	-	4,357,993	-
Employment contractual services	1,667,816	-	62,379,616	-	-
Grants	-	-	-	-	-
Total program services	47,110,126	22,336,813	62,379,616	4,357,993	-
Supporting services					
Administrative expenses	3,567,309	3,723,546	8,492,264	882,625	8,930,494
Fundraising expenses	-	-	-	-	-
Total supporting services	3,567,309	3,723,546	8,492,264	882,625	8,930,494
Total expenses and losses	50,677,435	26,060,359	70,871,880	5,240,618	8,930,494
OPERATING INCOME	244,770	(735,154)	1,689,245	211,513	106,579
OTHER INCOME (EXPENSE)					
Investment income	-	-	-	-	-
Gain (loss) on sale of assets	(91,816)	-	8,200	-	-
Net other income (expense)	(91,816)	-	8,200	-	-
CHANGES IN NET ASSETS	152,954	(735,154)	1,697,445	211,513	106,579
NET ASSETS (DEFICIENCY), Beginning	8,261,099	4,109,466	5,367,757	1,899,518	(2,485,615)
NET ASSETS (DEFICIENCY), Ending	$ 8,414,053	$ 3,374,312	$ 7,065,202	$ 2,111,031	$ (2,379,036)

Family-Child Resources, Inc.	Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 1,246,272	$ 61,116	$ 23,365,915	$ 1,545,729	$ -	$ -	$ 26,219,032
-	-	-	-	-	(1,276,990)	78,355,052
-	-	-	-	-	(393,812)	73,955,802
-	-	176,000	-	-	(8,992,478)	79,611
-	12,889	36,616	676	217,075	(79,753)	303,256
-	1,260	-	22,261	-	(144,089)	183,673
-	-	79,031	-	126,146	-	205,177
1,246,272	75,265	23,657,562	1,568,666	343,221	(10,887,122)	179,301,603
1,081,220	61,042	19,527,646	1,172,721	-	-	21,842,629
-	-	-	-	-	(1,651,456)	70,485,660
-	-	-	-	-	-	64,047,432
-	-	-	-	109,727	(79,753)	29,974
1,081,220	61,042	19,527,646	1,172,721	109,727	(1,731,209)	156,405,695
442,031	34,682	3,863,193	239,183	406,001	(9,256,968)	21,324,360
-	-	-	-	101,967	-	101,967
442,031	34,682	3,863,193	239,183	507,968	(9,256,968)	21,426,327
1,523,251	95,724	23,390,839	1,411,904	617,695	(10,988,177)	177,832,022
(276,979)	(20,459)	266,723	156,762	(274,474)	101,055	1,469,581
-	-	-	-	1,065,368	(101,055)	964,313
-	-	(266,695)	-	22,208	-	(328,103)
-	-	(266,695)	-	1,087,576	(101,055)	636,210
(276,979)	(20,459)	28	156,762	813,102	-	2,105,791
501,232	(373,530)	3,840,607	779,206	10,093,449	-	31,993,189
$ 224,253	$ (393,989)	$ 3,840,635	$ 935,968	$ 10,906,551	$ -	$ 34,098,980

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING SCHEDULE OF LAND, BUILDINGS AND EQUIPMENT
June 30, 2014

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.
Land	$ 2,683,881	$ 880,048	$ -	$ 155,053
Buildings and improvements	27,016,783	5,392,384	-	772,527
Land improvements	271,515	-	-	6,320
Automobiles	2,931,064	543,722	1,444,350	232,605
Furnishings and equipment	4,156,418	1,294,829	2,924,652	326,977
Leasehold improvements	860,070	1,132,478	26,616	296,568
Construction in progress	19,713	-	-	-
	37,939,444	9,243,461	4,395,618	1,790,050
Less: accumulated depreciation	18,063,883	3,147,156	3,548,333	541,581
	$ 19,875,561	$ 6,096,305	$ 847,285	$ 1,248,469

See auditors' report on supplementary information.

Chimes International Limited	Family-Child Resources, Inc.	Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chimes Foundation, Incorporated	Totals
$ -	$ 250,000	$ 70,000	$ 580,500	$ 30,000	$ 7,907	$ 4,657,389
-	1,681,525	276,576	3,570,703	272,105	-	38,982,603
-	-	-	-	-	-	277,835
91,707	-	-	933,813	-	-	6,177,261
6,696,706	106,727	31,511	963,863	96,605	-	16,598,288
628,401	-	-	177,758	69,814	-	3,191,705
3,479	-	-	-	-	-	23,192
7,420,293	2,038,252	378,087	6,226,637	468,524	7,907	69,908,273
5,898,673	551,826	169,662	2,062,401	111,682	-	34,095,197
$ 1,521,620	$ 1,486,426	$ 208,425	$ 4,164,236	$ 356,842	$ 7,907	$ 35,813,076

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
For the Year Ended June 30, 2013

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 180,331	$ 3,400,618	$ 85,757	$ 18,295	$ 694,719
Accounts receivable, net of allowance for doubtful accounts	1,187,418	2,882,075	15,060,686	769,097	56,188
Pledges receivable	-	-	-	-	-
Prepaid expenses	176,029	98,787	64,544	40,652	369,001
Notes receivable from affiliates, current portion	-	-	-	-	-
Investments, current	-	-	-	-	-
Due from related party	16,879,610	-	16,034,134	2,435,011	17,697,893
Total current assets	18,423,388	6,381,480	31,245,121	3,263,055	18,817,801
NONCURRENT ASSETS					
Land, buildings and equipment, net of accumulated depreciation	18,986,754	6,470,647	1,379,068	1,074,276	1,953,988
Intangible assets, net of accumulated amortization	123,126	66,199	-	-	-
Long-term pledges receivable, net	-	-	-	-	-
Note receivable from affiliates, net	-	-	-	-	-
Cash - deferred compensation plan					
Investments, long-term	-	-	-	-	-
Workers' compensation fund	-	-	-	-	-
Other noncurrent assets	31,962	86,953	11,697	41,467	119,622
Total noncurrent assets	19,141,842	6,623,799	1,390,765	1,115,743	2,073,610
TOTAL ASSETS	$ 37,565,230	$ 13,005,279	$ 32,635,886	$ 4,378,798	$ 20,891,411

See auditors' report on supplementary information.

Family-Child Resources, Inc.	Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 60,511	$ 6,437	$ 37,883	$ 41,982	$ 3,392,346	$ -	$ 7,918,879
144,222	4,178	3,150,757	81,313	-	-	23,335,934
-	-	-	-	84,649	-	84,649
2,473	-	231,692	17,797	-	-	1,000,975
-	-	-	-	197,933	(197,933)	-
-	-	-	-	4,564,357	-	4,564,357
-	-	606,989	374,715	26,593	(54,054,945)	-
207,206	10,615	4,027,321	515,807	8,265,878	(54,252,878)	36,904,794
1,563,285	215,185	4,243,336	355,329	-	-	36,241,868
-	-					
-	-	-	-	-	-	189,325
		-	-	418,138	-	418,138
-	-	-	-	1,227,626	(1,227,626)	-
		36,042				36,042
-	-	-	-	1,086,576	-	1,086,576
-	-	114,619	-	4,367	-	410,687
1,563,285	215,185	4,393,997	355,329	2,736,707	(1,227,626)	38,382,636
$ 1,770,491	$ 225,800	$ 8,421,318	$ 871,136	$ 11,002,585	$ (55,480,504)	$ 75,287,430

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED
For the Year Ended June 30, 2013

	The Chimes, Inc.	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	$ 297,145	$ 193,754	$ 11,517	$ -	$ -
Short term borrowings	-	-	3,527,650	-	4,964,286
Accounts payable	778,506	280,999	2,293,495	79,282	539,022
Accrued expenses and other liabilities	2,336,122	1,376,464	6,910,244	265,105	3,308,382
Deferred revenue	38,998	-	54,235	-	-
Deferred rent	-	-	-	-	-
Due to third party payors	1,130,388	-	-	6,629	-
Due to related parties	18,436,535	3,562,312	14,470,988	2,128,264	13,637,604
Total current liabilities	23,017,694	5,413,529	27,268,129	2,479,280	22,449,294
LONG-TERM LIABILITIES					
Bonds payable	4,677,219	2,104,412	-	-	-
Mortgages and notes payable	1,171,772	1,341,591	-	-	-
Interest rate swap	437,446	-	-	-	-
Deferred compensation and postemployment benefit obligation	-	36,281	-	-	927,732
Total long-term liabilities, net of current maturities	6,286,437	3,482,284	-	-	927,732
Total liabilities	29,304,131	8,895,813	27,268,129	2,479,280	23,377,026
NET ASSETS					
Unrestricted					
Undesignated	8,261,099	4,109,466	5,367,757	1,899,518	(2,485,615)
Board designated	-	-	-	-	-
	8,261,099	4,109,466	5,367,757	1,899,518	(2,485,615)
Temporarily restricted		-	-	-	-
Permanently restricted	-	-	-	-	-
Total net assets	8,261,099	4,109,466	5,367,757	1,899,518	(2,485,615)
TOTAL LIABILITIES AND NET ASSETS	$ 37,565,230	$ 13,005,279	$ 32,635,886	$ 4,378,798	$ 20,891,411

See auditors' report on supplementary information.

Family-Child Resources, Inc.	Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 53,123	$ -	$ 69,537	$ -	$ -	$ (197,933)	$ 427,143
175,000	-	500,000	-	-	-	9,166,936
26,283	7,430	496,874	16,411	71,598	-	4,589,900
110,759	2,165	1,357,468	48,619	-	-	15,715,328
3,582	0	183,475	26,900	-	-	307,190
-	-	26,578	-	-	-	26,578
-	-	-	-	-	-	1,137,017
18,677	589,735	373,292	-	837,538	(54,054,945)	-
387,424	599,330	3,007,224	91,930	909,136	(54,252,878)	31,370,092
-	-	-	-	-	-	6,781,631
881,835	-	1,537,445	-	-	(1,227,626)	3,705,017
-	-	-	-	-	-	437,446
-	-	36,042	-	-	-	1,000,055
881,835	-	1,573,487	-	-	(1,227,626)	11,924,149
1,269,259	599,330	4,580,711	91,930	909,136	(55,480,504)	43,294,241
501,232	(373,530)	3,840,607	779,206	8,192,862	405,944	30,498,546
-	-	-	-	13,249	-	13,249
501,232	(373,530)	3,840,607	779,206	8,206,111	405,944	30,511,795
-	-	-	-	579,672	(405,944)	173,728
-	-	-	-	1,307,666	-	1,307,666
501,232	(373,530)	3,840,607	779,206	10,093,449	-	31,993,189
$ 1,770,491	$ 225,800	$ 8,421,318	$ 871,136	$ 11,002,585	$ (55,480,504)	$ 75,287,430

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
REVENUE AND OTHER SUPPORT					
Mental health services	$ -	$ -	$ -	$ -	$ -
Developmental disabilities services	46,440,648	25,335,077	-	4,579,182	-
Employment contractual services	-	-	80,185,287	-	-
Management Fees	-	-	-	-	8,880,167
Donations and grants	535,443	-	-	-	-
Miscellaneous	172,863	7,118	22,684	-	121,934
Fundraising income, net of fundraising expenses of $143,986	-	-	-	-	-
Total revenue and other support	47,148,954	25,342,195	80,207,971	4,579,182	9,002,101
EXPENSES					
Program services					
Mental health services	-	-	-	-	-
Developmental disabilities services	43,606,379	22,152,814	-	3,597,155	-
Employment contractual services	-	-	69,525,099	-	-
Grants	-	-	-	-	-
Total program expenses	43,606,379	22,152,814	69,525,099	3,597,155	-
Supporting services					
Administrative	3,686,496	3,453,291	9,154,536	820,209	8,501,482
Fundraising	-	-	-	-	-
Total supporting services	3,686,496	3,453,291	9,154,536	820,209	8,501,482
Total expenses	47,292,875	25,606,105	78,679,635	4,417,364	8,501,482
OPERATING INCOME	(143,921)	(263,910)	1,528,336	161,818	500,619
OTHER INCOME (EXPENSE)					
Investment Income	-	-	-	-	-
Gain on interest rate swap	165,019				-
Gain (loss) on sale of assets	77,575	(3,816)	(2,021)	-	-
Net other income (expense)	242,594	(3,816)	(2,021)	-	-
CHANGES IN NET ASSETS BEFORE TRANSFER OF NET ASSETS	98,673	(267,726)	1,526,315	161,818	500,619
Gain on acquisition of Family-Child Resources, Inc.	-	-	-	-	-
CHANGES IN NET ASSETS	98,673	(267,726)	1,526,315	161,818	500,619
NET ASSETS (DEFICIENCY), Beginning	8,162,426	4,377,192	3,841,442	1,737,700	(2,986,234)
NET ASSETS (DEFICIENCY), Ending	$ 8,261,099	$ 4,109,466	$ 5,367,757	$ 1,899,518	$ (2,485,615)

See auditors' report on supplementary information.

Family-Child Resources, Inc.	Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
$ 2,027,707	$ 52,015	$ 23,209,182	$ 1,630,376	$ -	$ -	$ 26,919,280
-	-	-	-	-	(768,982)	75,585,925
-	-	-	-	-	(759,356)	79,425,931
-	-	180,000	-	-	(8,977,357)	82,810
-	15,477	40,482	3,181	313,546	(142,121)	766,008
-	5,414	-	25,792	-	(162,263)	193,542
-	-	68,456	-	197,366	-	265,822
2,027,707	72,906	23,498,120	1,659,349	510,912	(10,810,079)	183,239,318
1,705,562	54,912	19,622,233	1,256,813	-	-	22,639,520
-	-	-	-	-	(1,498,321)	67,858,027
-	-	-	-	-	-	69,525,099
-	-	-	-	186,574	(142,121)	44,453
1,705,562	54,912	19,622,233	1,256,813	186,574	(1,640,442)	160,067,099
522,564	56,071	3,634,419	202,833	396,533	(9,268,335)	21,160,099
-	-	-	-	48,665	-	48,665
522,564	56,071	3,634,419	202,833	445,198	(9,268,335)	21,208,764
2,228,126	110,983	23,256,652	1,459,646	631,772	(10,908,777)	181,275,863
(200,419)	(38,077)	241,468	199,703	(120,860)	98,698	1,963,455
-	-	-	-	1,007,003	(98,698)	908,305
-	-	-	-	-	-	165,019
-	-	-	-	-	-	71,738
-	-	-	-	1,007,003	(98,698)	1,145,062
(200,419)	(38,077)	241,468	199,703	886,143	-	3,108,517
701,651	-	-	-	-	-	701,651
501,232	(38,077)	241,468	199,703	886,143	-	3,810,168
-	(335,453)	3,599,139	579,503	9,207,306	-	28,183,021
$ 501,232	$ (373,530)	$ 3,840,607	$ 779,206	$ 10,093,449	$ -	$ 31,993,189

CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES
CONSOLIDATING SCHEDULE OF LAND, BUILDINGS AND EQUIPMENT
For the Year Ended June 30, 2013

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.
Land	$ 2,392,262	$ 880,048	$ -	$ -
Buildings and improvements	25,548,452	5,318,957	-	-
Land improvements	246,975	-	-	-
Automobiles	2,634,450	519,423	1,418,358	111,974
Furnishings and equipment	3,927,113	1,277,623	3,634,932	322,852
Leasehold improvements	860,068	1,107,228	22,541	240,503
Construction in progress	18,693	-	-	841,642
	35,628,013	9,103,279	5,075,831	1,516,971
Less: accumulated depreciation	16,641,259	2,632,632	3,696,763	442,695
	$ 18,986,754	$ 6,470,647	$ 1,379,068	$ 1,074,276

Chimes International Limited	Family-Child Resources, Inc.	Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Chimes Foundation, Incorporated	Totals
$ -	$ 250,000	$ 70,000	$ 606,500	$ 30,000	$ -	$ 4,228,810
626,578	1,681,525	276,576	3,577,165	272,105	-	37,301,358
-	-	-	-	-	-	246,975
91,706	-	-	1,012,420	-	-	5,788,331
6,536,015	102,253	29,741	916,425	76,148	-	16,823,102
-	-	-	177,758	69,814	-	2,477,912
-	-	-	-	-	-	860,335
7,254,299	2,033,778	376,317	6,290,268	448,067	-	67,726,823
5,300,311	470,493	161,132	2,046,932	92,738	-	31,484,955
$ 1,953,988	$ 1,563,285	$ 215,185	$ 4,243,336	$ 355,329	$ -	$ 36,241,868