HOLCOMB
BEHAVIORAL HEALTH SYSTEMS
A Member of Chimes Family of Services

HOLCOMB ASSOCIATES, INC.
AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

GSG
Gorfine Schiller Gardyn
Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To the Boards of Directors
Holcomb Associates, Inc. and Related Entities
Exton, Pennsylvania

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Holcomb Associates, Inc. and Related Entities (the Organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Holcomb Associates, Inc. and Related Entities as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gorfine, Schiller + Gardyn, P.A.

December 20, 2018
Owings Mills, Maryland

CONSOLIDATED FINANCIAL STATEMENTS

HOLCOMB ASSOCIATES, INC. AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,081,317	$ 1,254,535
Accounts receivable, net of allowance for doubtful accounts	4,464,183	4,463,025
Cash - deferred compensation plan	-	76,044
Prepaid expenses	196,659	252,903
Total current assets	6,742,159	6,046,507
NONCURRENT ASSETS		
Land, buildings and equipment, net of accumulated depreciation	5,770,081	6,074,075
Deposits on leased and other property	128,699	119,765
Total other assets	5,898,780	6,193,840
TOTAL ASSETS	$ 12,640,939	$ 12,240,347

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

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term liabilities	$ 118,122	$ 112,345
Line of credit	872,204	1,660,978
Accounts payable	220,881	251,518
Accrued expenses and other liabilities	2,297,342	2,478,259
Due to related party	2,895,419	1,015,832
Deferred revenue and refundable advances	-	1,615
Deferred compensation	-	76,044
Total current liabilities	6,403,968	5,596,591
OTHER LIABILITIES		
Deferred rent	208,179	204,269
LONG-TERM LIABILITIES		
Mortgages and notes payable, net of current maturities	1,909,660	2,025,481
Total liabilities	8,521,807	7,826,341
NET ASSETS		
Unrestricted	4,119,132	4,414,006
TOTAL LIABILITIES AND NET ASSETS	$ 12,640,939	$ 12,240,347

HOLCOMB ASSOCIATES, INC. AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017

	2018	2017
REVENUE, GAINS AND OTHER SUPPORT		
Federal, state and county funds	$ 13,917,238	$ 13,293,442
Medical assistance and third party income	15,901,722	15,265,342
Client income	1,784,173	1,919,933
Private fees and other	720,181	754,833
Contributions and grants	19,915	49,832
Special events, net of expenses of $-0- and $-0-, respectively	-	60,103
Loss on disposal of land, buildings and equipment	-	(621,524)
Total revenue, gains and other support	32,343,229	30,721,961
EXPENSES		
Program services		
Treatment and assessment services	13,580,462	14,570,704
Residential services	6,728,220	6,954,425
Psychosocial and psychiatric rehabilitation services	1,057,488	756,285
Case management and intake services	2,811,482	1,889,020
Prevention and education services	2,671,842	2,623,964
Total program services	26,849,494	26,794,398
Supporting services		
Management and general expenses	5,788,609	5,170,337
Total expenses	32,638,103	31,964,735
CHANGES IN UNRESTRICTED NET ASSETS	(294,874)	(1,242,774)
NET ASSETS - UNRESTRICTED, Beginning of year	4,414,006	5,656,780
NET ASSETS - UNRESTRICTED, End of year	$ 4,119,132	$ 4,414,006

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

HOLCOMB ASSOCIATES, INC. AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (294,874)	$ (1,242,774)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	497,979	423,798
Provision for bad debts	510,918	778,775
Loss on disposal of land, buildings and equipment	-	621,524
Changes in operating assets and liabilities:		
Accounts receivable	(512,076)	(1,483,739)
Prepaid expenses	56,244	46,063
Accounts payable	(30,637)	(363,465)
Accrued expenses and other liabilities	(180,917)	377,692
Deferred revenue and refundable advances	(1,615)	(284,365)
Deferred rent	3,910	38,482
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	48,932	(1,088,009)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of land, buildings and equipment	(193,985)	(414,394)
Changes in deposits on leased and other property	(8,934)	(2,900)
NET CASH USED IN INVESTING ACTIVITIES	(202,919)	(417,294)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party - net	1,879,587	1,015,832
(Payments) borrowings from short-term borrowings - net	(788,774)	825,000
Principal payments on mortgages and notes payable	(110,044)	(105,709)
NET CASH PROVIDED BY FINANCING ACTIVITIES	980,769	1,735,123
NET CHANGES IN CASH AND CASH EQUIVALENTS	826,782	229,820
CASH AND CASH EQUIVALENTS, Beginning of year	1,254,535	1,024,715
CASH AND CASH EQUIVALENTS, End of year	$ 2,081,317	$ 1,254,535

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

Holcomb Associates, Inc. and Related Entities (the Organization), is composed of three (3) entities (four (4) entities as of June 30, 2017), which are all 501(c)(3) not-for-profit organizations. The Organization consists of the following:

Holcomb Associates, Inc. D/B/A Holcomb Behavioral Health Systems (Holcomb)
Open Door, Inc. (ODI)
Chester County Council on Addictive Diseases, Inc. (COAD)
Family-Child Resources, Inc. (FCR) until June 30, 2017 see note below.

Holcomb, a Pennsylvania corporation founded in 1979, is a behavioral health care network providing five major services to the population of Southeastern Pennsylvania:

Treatment and Assessment Services - these services are inclusive of all programs providing clinical assessment and/or treatment interventions for mental health and substance abuse issues.

Residential Services - these services are inclusive of all programs where formal housing and ancillary support services are offered for mental health, substance abuse, dually diagnosed and /or developmentally disabled clients.

Psychosocial and Psychiatric Rehabilitation - these services are inclusive of all programs that provide non-treatment, supportive services to mental health substance abuse, dually diagnosed and /or developmentally disabled clients.

Case Management and Intake Services - these services are inclusive of all programs that provide linkage services, instrumental supports and facilitating receipt of additional services for clients in the mental health, substance abuse and developmentally disabled clients.

Prevention and Education Services - these services are inclusive of all programs that provide primary interventions to the general public or secondary interventions to individuals identified as being at risk.

ODI, a Delaware corporation founded in 1977, is a provider of behavioral health services. Services provided by qualified professionals, specializing in the treatment of addictions, include: assessment, outpatient counseling (individual, group and family), intensive outpatient counseling, education and prevention programs, and state mandated driving under the influence treatment and education. ODI is a long-time recipient of the State of Delaware, Joint Finance Committee's Grant-in-Aid. Family Services Association, Inc. (FSAI) was a Maryland corporation founded in 1980, which provided family counseling services to area residents. They also provided mental health and substance abuse services to the Cecil County area. On July 1, 2014, FSAI transferred all of its assets and liabilities to ODI. Subsequent to year-end on July 1, 2018, ODI transferred all of its assets and liabilities to Holcomb.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

On July 1, 2014, COAD became an affiliate of Holcomb. COAD, a Pennsylvania corporation founded in 1964, promotes healthy and safe communities by offering effective programs and services to address the use and abuse of drugs and alcohol and to focus on mental health concerns and provide educational opportunities designed to support responsible choices and behaviors.

FCR, a Pennsylvania corporation founded in 1991, provides early intervention and support services to individuals and families primarily in York, Pennsylvania. On July 1, 2017, FCR transferred all of its assets and liabilities to Holcomb.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Holcomb and those of its related entities: ODI and COAD (and FCR as of June 30, 2017). Holcomb is the sole member and management company of the group. All intercompany transactions and balances have been eliminated in consolidation.

3. Financial Statement Presentation

The Organization reports 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.

4. 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.

5. Income Tax

Each organization within the consolidated group has been recognized as a not-for-profit organization as defined by Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal and state income taxes. The Organization follows the provisions of the FASB ASC, *Accounting for Income Taxes*. This topic requires the Organization 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 this topic. Tax years ending June 30, 2015 and after are still open.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

6. Net Assets

Unrestricted net assets consist of funds free of any legally enforceable restrictions outside of the Organization and its Boards 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 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 FASB ASC Topic *Accounting for Contributions*. 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.

7. Support and Revenue

The Organization, in the normal course of business, receives grants and enters into contracts for the performance of specific activities within certain budgetary constraints. Such projects are subject to various stipulations as to operating compliance and financial reporting. For substantially all of these programs, the expenditures are subject to review, audit and final approval by the contracting agencies. Management believes that no material adjustments would result from an audit.

8. Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less, and with no operating restrictions, to be cash equivalents. Periodically during the year, cash and cash equivalents 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.

9. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expenses and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. The allowance for doubtful accounts at June 30, 2018 and 2017 was $871,625 and $603,519, respectively.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

10. Land, Buildings and Equipment

Furniture and equipment purchased with County funds in a cost-funded program are owned by the County and are expensed with the exception of automobiles and buildings. Items not specifically funded by the county are owned by the Organization and depreciated over their estimated useful lives.

Capital assets are stated at cost using a minimum capitalization policy of $2,500. Donated assets are recorded at fair market value on the date of donation. The useful lives of assets for the purpose of computing depreciation are:

Buildings and improvements	39 years
Automobiles	5 years
Furnishings and equipment	5 to 7 years
Leasehold improvements	life of lease

11. Deferred Revenue and Refundable Advances

Fee for service revenue is recognized as earned. Program funded revenue from government and private grants and contracts are recognized as the funds are expended. Any government revenue received before it is expended is recorded as a refundable advance.

12. 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, 2018 and 2017 was not material.

13. 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 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. Book value is considered equal to fair value for COAD.

14. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 20, 2018, the date the consolidated financial statements were available to be issued.

On July 1, 2018, ODI, transferred all its assets and liabilities to Holcomb.

15. Reclassifications

Certain reclassification have been made to the prior year consolidated financial statements to conform to the current year presentation.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

16. Recent Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, *Accounting for Leases*, which requires that all leases greater than twelve months be presented on the consolidated statements of financial position. The new standard is effective for the year ending June 30, 2021. The Organization will evaluate the effect that implementation of the new standard will have on their financial position, results of operations and cash flows.

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities*, which contains significant changes to the consolidated 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.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, which requires that revenue recognition be determined by applying a five step process. The new standard, as amended by subsequent Accounting Standards Updates, is effective for the year ending June 30, 2020. The Organization will evaluate the effect that implementation of the new standard will have on its financial position, results of operations and cash flows.

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-08, *Not-for-Profit Entities*, which is to assist in evaluating whether transactions should be accounted for as contributions or exchange transactions, and determine whether they are conditional under the *Not-for-Profit Entities* topic of the Accounting Standards Codification. The new standard is effective for the year ending June 30, 2020. The Organization will evaluate the effect that implementation of the new standard will have on its financial position, results of operations and cash flows.

NOTE B – LAND, BUILDINGS AND EQUIPMENT

Major classes of land, buildings and equipment at June 30, 2018 and 2017 are as follows:

	2018	2017
Land	$ 930,770	$ 930,770
Building and improvements	5,878,575	5,878,575
Automobiles	1,066,778	976,494
Furnishings and equipment	2,205,724	2,112,016
Leasehold improvements	259,794	251,694
Total land, buildings and equipment	10,341,641	10,149,549
Less: accumulated depreciation	4,571,560	4,075,474
Net land, buildings and equipment	$ 5,770,081	$ 6,074,075

Depreciation on these assets for the years ended June 30, 2018 and 2017 was $497,979 and $423,798, respectively. During 2017, the Organization recognized a loss of approximately $600,000 that was attributable to a non-cash fixed asset write off due to the closure of a program that began during fiscal year 2015.

NOTE C – SHORT-TERM BORROWINGS

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% (4.50% and 3.75% as of June 30, 2018 and 2017, respectively). The working capital line, which is due on demand, expires on September 28, 2018, and has to comply with covenants. The working capital line is guaranteed by Chimes International Limited (International), a related party (see Note G). The outstanding balance at June 30, 2018 and 2017 was $872,204 and $1,660,978, respectively.

Subsequent to year end, the line of credit was consolidated with International's line of credit.

NOTE D – MORTGAGES AND NOTES PAYABLE

Mortgages and notes payable at June 30, are as follows:	2018	2017
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.	$ 84,721	$ 88,167
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 an interest rate 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 and matures August 2, 2024. The rates at June 30, 2018 and 2017 were 3.39%. Currently, the monthly payment of principal and interest is $1,895. The mortgage is secured by a deed of trust on the property and the Organization is required to comply with various covenants.	126,223	144,292
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% and matures August 26, 2024. The rates at June 30, 2018 and 2017 were 3.625%. Currently, the monthly payment of principal and interest is $1,290. The mortgage is secured by a deed of trust on the property and the Organization is required to comply with various covenants.	85,606	98,685
Sub-total (balance forward)	$ 296,550	$ 331,144

NOTE D – MORTGAGES AND NOTES PAYABLE – Continued

	2018	2017
Sub-total (carried forward)	$ 296,550	$ 331,144
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.	870,021	904,904
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 and matures June 22, 2025. Currently, the monthly payment of principal and interest is $1,041, with interest at the current rate of 3.375% per annum. The mortgage is secured by a deed of trust on the property and the Organization is required to comply with various covenants.	77,753	86,454
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 borrowed by Holcomb (and co-borrowed by FCR as of June 30, 2017), 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.	783,458	815,324
	2,027,782	2,137,826
Less: current maturities	118,122	112,345
	$ 1,909,660	$ 2,025,481

Aggregate maturities required on mortgages and notes payable during the next five years and thereafter as of June 30, 2018, are as follows:

Year ending June 30,	2019	$ 118,122
	2020	916,985
	2021	91,031
	2022	96,223
	2023	101,730
	Thereafter	703,691
		$ 2,027,782

NOTE D – MORTGAGES AND NOTES PAYABLE – Continued

Holcomb was in default of one of its covenants for the year ending June 30, 2018. However, the bank waived that default. The financial statements did not include any adjustments related to the event of default or that would result from the Organizations inability to cure such default in the future.

Interest expense related to short-term borrowings and mortgages and notes payable was $141,446 and $154,759 for the years ended June 30, 2018 and 2017, respectively.

NOTE E – CONSUMER CASH FUNDS

Holcomb acts as an agent on behalf of individuals served regarding the holding of consumer cash funds. At June 30, 2018 and 2017, Holcomb was holding $69,535 and $50,301, respectively, in consumer funds, which have not been reflected in these consolidated financial statements.

NOTE F – LEASE COMMITMENTS

The Organization leases facilities for office space, to provide outpatient services, to serve its clients in community residential rehabilitation (CRR) programs and for administrative purposes. At June 30, 2018, the Organization leases space in Newark, Claymont, Dover, Seaford and Wilmington, Delaware. The Organization also leases space in Exton, West Chester, Upper Darby, Allentown, Coatesville, Media, Reading, Aldan and Phoenixville, Pennsylvania, and Collingswood, New Jersey.

The future minimum lease payments required under non-cancelable leases for the next five years as of June 30, 2018 are as follows:

Year ending June 30,	2019	$ 1,615,039
	2020	885,935
	2021	701,786
	2022	703,360
	2023	697,203

Rent expense for the years ended June 30, 2018 and 2017 was $2,098,540 and $1,992,766, respectively.

NOTE G – RELATED PARTY TRANSACTIONS

In 2005, International, a supporting organization recognized as a 501(c)(3) not-for-profit corporation by the Internal Revenue Service (IRS), became the sole member of Holcomb. International provides management services to its affiliates. Management fee expense to International was $1,419,518 and $240,000 for the years ended June 30, 2018 and 2017, respectively. In addition, during 2017, International passed through expenses for insurance and worker's compensation to the Organization in the amount of $775,832. As of June 30, 2018 and 2017, Holcomb has a payable due to International of $2,895,419 and $1,015,832, respectively.

NOTE H – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest was $141,446 and $154,759 for the years ended June 30, 2018 and 2017, respectively.

NOTE I – COST ALLOCATION

The Organization allocates direct administrative expenses, such as payroll taxes, insurance, and office space, to programs by the methods listed below.

Administrative Expense:	Method of Allocation:
Payroll taxes and workers' compensation insurance	Program payroll percentage
Business insurance	Square footage and common area usage
Health insurance and other related employee benefits	Direct expense to program by employee
Occupancy costs	Square footage and common area usage
General, executive, accounting, and clerical support expenses	Program revenue percentage

NOTE J – PENSION PLAN

The Organization has a retirement plan called 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, 2018 and 2017 were $142,626 and $143,944, respectively.

Holcomb maintained a deferred compensation plan under IRC 457(b) for one of its officers. The assets were invested in Holcomb's name and, accordingly a deferred compensation liability of equal amount was recorded on the consolidated statements of financial position. Due to the officer's retirement (see note below), there was no contribution for the year ended June 30, 2017. The deferred compensation asset and corresponding liability account balances was $76,044 as of June 30, 2017. In August 2017, this liability was paid in full.

In September 2015, an agreement was entered into between Holcomb and the COO. Upon the COO's retirement, the COO will be entitled to a severance payment for 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. Holcomb had employed the COO for 21 years. During the prior year, the COO retired. As of June 30, 2017, Holcomb accrued $170,422, for this liability. In August 2017, this liability was paid in full.

NOTE K – 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 is as follows:

Year ending June 30,	2019	$ (8,733)
	2020	(24,768)
	2021	(35,325)
	2022	(45,833)
	2023	(56,441)
	Thereafter	(37,079)
		$ (208,179)