



Gorfine Schiller Gardyn

Certified Public Accountants and Consultants



**HOLCOMB ASSOCIATES, INC.
AND RELATED ENTITIES**

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

HOLCOMB ASSOCIATES, INC. AND RELATED ENTITIES
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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 financial statements of Holcomb Associates, Inc. and Related Entities (the Organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, 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.

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, 2016 and 2015, 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.

Martino, Schiller & Gaidyn, P.A.

January 9, 2017
Owings Mills, Maryland

CONSOLIDATED FINANCIAL STATEMENTS

HOLCOMB ASSOCIATES, INC. AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,024,715	\$ 345,658
Accounts receivable, net of allowance for doubtful accounts	3,758,061	5,193,154
Cash - deferred compensation plan	74,991	64,742
Prepaid expenses	<u>298,966</u>	<u>269,215</u>
Total current assets	<u>5,156,733</u>	<u>5,872,769</u>
NONCURRENT ASSETS		
Land, buildings and equipment, net of accumulated depreciation	6,705,003	6,808,622
Deposits on leased and other property	<u>116,865</u>	<u>115,879</u>
Total other assets	<u>6,821,868</u>	<u>6,924,501</u>
TOTAL ASSETS	<u>\$ 11,978,601</u>	<u>\$ 12,797,270</u>

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

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 107,503	\$ 102,272
Line of credit	835,978	1,935,978
Accounts payable	614,983	743,403
Accrued expenses and other liabilities	2,100,567	1,607,502
Deferred revenue and refundable advances	285,980	169,227
Deferred compensation, current portion	74,991	-
Deferred rent	<u>165,787</u>	<u>143,962</u>
Total current liabilities	<u>4,185,789</u>	<u>4,702,344</u>
LONG-TERM LIABILITIES		
Mortgages and notes payable, net of current maturities	2,136,032	2,242,641
Deferred compensation, net of current maturities	<u>-</u>	<u>64,742</u>
Total long-term liabilities	<u>2,136,032</u>	<u>2,307,383</u>
Total liabilities	6,321,821	7,009,727
NET ASSETS		
Unrestricted	<u>5,656,780</u>	<u>5,787,543</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,978,601</u>	<u>\$ 12,797,270</u>

HOLCOMB ASSOCIATES, INC. AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

	2016	2015
REVENUE, GAINS AND OTHER SUPPORT		
Federal, state and county funds	\$ 13,161,552	\$ 13,922,548
Medical assistance and third party income	15,010,451	12,837,078
Client income	2,115,272	2,389,852
Private fees and other	648,933	595,324
Contributions and grants	84,146	72,850
Special events, net of expenses of \$15,667 and \$26,514, respectively	37,070	67,984
Gain on disposal of land, buildings and equipment	-	4,623
Total revenue, gains and other support	31,057,424	29,890,259
EXPENSES		
Program services		
Treatment and assessment services	13,774,858	12,823,693
Residential services	6,733,034	6,066,989
Psychosocial and psychiatric rehabilitation services	1,185,972	1,112,541
Case management and intake services	1,729,930	1,880,114
Prevention and education services	2,090,512	2,369,095
Total program services	25,514,306	24,252,432
Supporting services		
Management and general expenses	5,673,775	4,615,744
Fundraising expenses	106	-
Total supporting services	5,673,881	4,615,744
Total expenses	31,188,187	28,868,176
CHANGES IN UNRESTRICTED NET ASSETS BEFORE ACQUISITION	(130,763)	1,022,083
Gain on acquisition of Chester County Council on Addictive Diseases, Inc.	-	158,593
CHANGES IN UNRESTRICTED NET ASSETS	(130,763)	1,180,676
NET ASSETS - UNRESTRICTED, Beginning of year	5,787,543	4,606,867
NET ASSETS - UNRESTRICTED, End of year	\$ 5,656,780	\$ 5,787,543

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (130,763)	\$ 1,180,676
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	453,344	350,576
Provision for bad debts	1,286,210	531,715
Gain on disposal of land, buildings and equipment	-	(4,623)
Gain on acquisition of Chester County Council on Addictive Diseases, Inc.	-	(158,593)
Changes in operating assets and liabilities		
Accounts receivable	148,883	(2,258,178)
Prepaid expenses	(29,751)	41,044
Accounts payable	(128,420)	11,040
Accrued expenses and other liabilities	493,065	25,102
Deferred revenue and refundable advances	116,753	126,693
Deferred rent	21,825	43,982
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,231,146	(110,566)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of land, buildings and equipment	(349,725)	(916,607)
Changes in deposits on leased and other property	(986)	3,196
NET CASH USED IN INVESTING ACTIVITIES	(350,711)	(913,411)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments) borrowings from short-term borrowings - net	(1,100,000)	1,350,978
Proceeds from mortgages and notes payable	-	975,161
Principal payments on mortgages and notes payable	(101,378)	(1,079,561)
Proceeds from acquisition of Chester County Council on Addictive Diseases, Inc.	-	36,019
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,201,378)	1,282,597
NET CHANGES IN CASH AND CASH EQUIVALENTS	679,057	258,620
CASH AND CASH EQUIVALENTS, Beginning of year	345,658	87,038
CASH AND CASH EQUIVALENTS, End of year	\$ 1,024,715	\$ 345,658

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

HOLCOMB ASSOCIATES, INC. AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

Holcomb Associates, Inc. and Related Entities (the Organization), is composed of four (4) entities, 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)
Family-Child Resources, Inc. (FCR)
Chester County Council on Addictive Diseases, Inc. (COAD)

Holcomb, a Pennsylvania corporation founded in 1979, is a behavioral health care network providing four 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, 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

FCR, a Pennsylvania corporation founded in 1991, provides early intervention and support services to individuals and families primarily in York, Pennsylvania.

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.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Holcomb and those of its related entities: ODI, FCR and COAD. 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, 2013 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, 2016 and 2015 was \$665,542 and \$651,259, 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, 2016 and 2015 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, who merged with Holcomb during 2015.

14. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 9, 2017, the date the consolidated financial statements were available to be issued. During this period, the Organization did not have any material recognizable subsequent events.

15. Reclassifications

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

NOTE B – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Land	\$ 930,770	\$ 930,500
Building and improvements	5,804,450	5,804,450
Automobiles	1,009,100	871,136
Furnishings and equipment	1,437,573	1,367,950
Leasehold improvements	960,867	960,867
Idle equipment	<u>363,370</u>	<u>221,502</u>
Total land, buildings and equipment	10,506,130	10,156,405
Less: accumulated depreciation	<u>3,801,127</u>	<u>3,347,783</u>
Net land, buildings and equipment	<u>\$ 6,705,003</u>	<u>\$ 6,808,622</u>

Depreciation on these assets for the years ended June 30, 2016 and 2015 was \$453,344 and \$350,576, respectively.

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

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% (3.50% as of June 30, 2016 and 2015). The working capital line is due on demand, expires on June 28, 2017, and has to comply with covenants. The outstanding balance at June 30, 2016 and 2015 was \$835,978 and \$1,935,978, respectively.

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

NOTE D – MORTGAGES AND NOTES PAYABLE

Mortgages and notes payable at June 30, are as follows:

	<u>2016</u>	<u>2015</u>
<p>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.</p>	\$ 91,413	\$ 94,645
<p>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. The rates at June 30, 2016 and 2015 were 3.39%. Currently, the monthly payment of principal and interest is \$1,895.</p>	161,750	178,525
<p>Mortgage payable to BB&T dated August 26, 1999, collateralized by the property at 515 Cherry Tree Road, Aston, Pennsylvania. The loan is for a term of 300 months with an interest rate subject to adjustment every 60 months to the average five-year U.S. Treasury constant maturities yield plus 2% rounded to the nearest .125%. The rates at June 30, 2016 and 2015 were 3.625%. Currently, the monthly payment of principal and interest is \$1,290.</p>	110,309	124,276
<p>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.</p>	<u>937,174</u>	<u>966,383</u>
Sub-total (balance forward)	<u>\$ 1,300,646</u>	<u>\$ 1,363,829</u>

NOTE D – MORTGAGES AND NOTES PAYABLE – Continued

	<u>2016</u>	<u>2015</u>
Sub-total (carried forward)	\$ 1,300,646	\$ 1,363,829
<p>Mortgage payable to BB&T dated June 22, 2000, collateralized by the property at 115 Burmont Road, Drexel Hill, Pennsylvania. The loan is for a term of 300 months with a variable interest rate of 2.0% above the five-year U.S. Treasury constant maturities rate. Currently, the monthly payment of principal and interest is \$1,041, with interest at the current rate of 3.375% per annum.</p>	97,549	105,854
<p>Mortgage loan payable to BB&T in the amount of \$880,000 collateralized by the property at 3995 East Market Street, York, Pennsylvania. The mortgage, which is co-borrowed by Holcomb and FCR, is for a term of 60 months, has a fixed interest rate of 3.99% per annum and matures April 7, 2020. The monthly principal and interest payments are \$5,355 with a balloon payment of \$727,009 due on April 7, 2020. The mortgage is secured by a deed of trust on the property and the Organization is required to comply with various covenants.</p>	<u>845,340</u>	<u>875,230</u>
	\$ 2,243,535	\$ 2,344,913
Less: current maturities	<u>107,503</u>	<u>102,272</u>
	<u>\$ 2,136,032</u>	<u>\$ 2,242,641</u>

Aggregate maturities required on mortgages and notes payable during the next five years and thereafter as of June 30, 2016, are as follows:

Year ending June 30, 2017	\$ 107,503
2018	113,018
2019	118,837
2020	915,222
2021	91,031
Thereafter	<u>897,924</u>
	<u>\$ 2,243,535</u>

Interest expense related to short-term borrowings and mortgages and notes payable was \$158,130 and \$144,376 as of June 30, 2016 and 2015, 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, 2016 and 2015, Holcomb was holding \$71,900 and \$63,948, 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, 2016, 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, 2016 are as follows:

Year ending June 30, 2017	\$ 1,505,251
2018	866,633
2019	694,669
2020	672,544
2021	631,400

Rent expense for the years ended June 30, 2016 and 2015 was \$1,968,654 and \$2,060,499, respectively.

NOTE G – RELATED PARTY TRANSACTIONS

In 2005, Chimes International Limited (International), a supporting organization recognized as a 501(c)(3) not-for-profit corporations by the Internal Revenue Service (IRS), became the sole member of Holcomb. International provides management services to its affiliates.

Holcomb paid International \$240,000 for management services for each of the years ended June 30, 2016 and 2015.

NOTE H – RECENT ACCOUNTING PRONOUNCEMENTS

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

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.

<u>Administrative Expense:</u>	<u>Method of Allocation:</u>
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	Direct expense of program

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 six years of participation. Contributions for the years ended June 30, 2016 and 2015 were \$100,006 and \$99,463, respectively.

Holcomb maintains 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 consolidated statements of financial position. Contribution expense was \$10,000 for each of the years ended June 30, 2016 and 2015. The deferred compensation asset and corresponding liability account balances was \$74,991 and \$64,742 as of June 30, 2016 and 2015, 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 made to the plan for the years ended June 30, 2016 and 2015.

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

NOTE K – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest was \$158,780 and \$144,376 for the years ended June 30, 2016 and 2015, respectively.

NOTE L – 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,	2017	\$	53,248
	2018		(7,680)
	2019		(15,803)
	2020		(23,927)
	2021		(32,051)
	Thereafter		<u>(139,574)</u>
		\$	<u>(165,787)</u>