Holcomb Associates, Inc.

Financial Report
June 30, 2023

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
Holcomb Associates, Inc.

Report on the Financial Statements

Opinion
We have audited the financial statements of Holcomb Associates, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the changes it its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter
As disclosed in Note 1 to the financial statements, the Organization adopted Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842),* as of July 1, 2022. Our opinion is not modified with respect to this matter.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Baltimore, Maryland
January 29, 2024

Holcomb Associates, Inc.

Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,329,213**	$ 5,009,119
Accounts receivable, net (Note 1)	**3,168,350**	3,396,101
Consumer funds (Note 10)	**70,646**	82,701
Prepaid expenses	**546,721**	210,856
Due from related party (Note 7)	**1,376,904**	486,581
Total current assets	**10,491,834**	9,185,358
Noncurrent assets:		
Right-of-use assets, operating leases (Note 6)	**6,380,705**	-
Right-of-use assets, finance leases (Note 6)	**200,735**	-
Property and equipment, net (Note 2)	**4,059,881**	4,076,286
Deposits on leased and other property	**164,070**	159,371
Total noncurrent assets	**10,805,391**	4,235,657
Total assets	**$ 21,297,225**	$ 13,421,015
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 1,979,433**	$ 4,080,806
Accrued expenses and other liabilities	**2,516,811**	2,373,830
Current maturities of long-term liabilities (Note 4)	**8,403**	8,064
Consumer funds payable (Note 10)	**70,646**	82,701
Operating lease liabilities, current (Note 6)	**984,983**	-
Finance lease liabilities, current (Note 6)	**73,787**	-
Deferred revenue and refundable advances	**750,220**	997,933
Total current liabilities	**6,384,283**	7,543,334
Long-term liabilities:		
Mortgage payable (Note 4)	**126,297**	134,029
Operating lease liabilities, noncurrent (Note 6)	**5,684,175**	-
Finance lease liabilities, noncurrent (Note 6)	**126,344**	-
Deferred rent (Note 6)	**-**	274,474
Total liabilities	**12,321,099**	7,951,837
Net assets:		
Without donor restrictions	**5,285,114**	3,987,032
With donor restrictions (Note 5)	**3,691,012**	1,482,146
Total net assets	**8,976,126**	5,469,178
Total liabilities and net assets	**$ 21,297,225**	$ 13,421,015

See notes to financial statements.

Holcomb Associates, Inc.

Statement of Activities
Year Ended June 30, 2023
(With Comparative Totals for 2022)

	2023			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2022
Revenue, gains and other support:				
Federal, state and county funds	**$ 16,632,721**	**$ -**	**$ 16,632,721**	$ 13,652,911
Medical assistance and third-party income	**17,357,261**	**-**	**17,357,261**	15,110,281
Client income	**962,755**	**-**	**962,755**	854,104
Private fees and other	**1,860,464**	**2,485,502**	**4,345,966**	3,460,385
Contributions and grants	**106,704**	**-**	**106,704**	133,900
Net assets released from donor restrictions (Note 5)	**276,636**	**(276,636)**	**-**	-
Total revenue, gains and other support	**37,196,541**	**2,208,866**	**39,405,407**	33,211,581
Expenses:				
Program services:				
Treatment and assessment services	**17,022,707**	**-**	**17,022,707**	14,276,199
Residential services	**5,954,105**	**-**	**5,954,105**	5,654,434
Psychosocial and psychiatric rehabilitation services	**2,100,381**	**-**	**2,100,381**	1,952,016
Case management and intake services	**1,132,171**	**-**	**1,132,171**	1,524,445
Prevention and education services	**2,722,251**	**-**	**2,722,251**	2,304,049
Total program expenses	**28,931,615**	**-**	**28,931,615**	25,711,143
Supporting services:				
Management and general	**6,966,844**	**-**	**6,966,844**	5,479,437
Total expenses	**35,898,459**	**-**	**35,898,459**	31,190,580
Change in net assets before other income	**1,298,082**	**2,208,866**	**3,506,948**	2,021,001
Other income:				
Gain on disposal of property and equipment	**-**	**-**	**-**	10,000
Change in net assets	**1,298,082**	**2,208,866**	**3,506,948**	2,031,001
Net assets:				
Beginning	**3,987,032**	**1,482,146**	**5,469,178**	3,438,177
Ending	**$ 5,285,114**	**$ 3,691,012**	**$ 8,976,126**	$ 5,469,178

See notes to financial statements.

Holcomb Associates, Inc.

Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Federal, state and county funds	$ 13,652,911	$ -	$ 13,652,911
Medical assistance and third-party income	15,110,281	-	15,110,281
Client income	854,104	-	854,104
Private fees and other	1,752,720	1,707,665	3,460,385
Contributions and grants	133,900	-	133,900
Net assets released from donor restrictions (Note 5)	225,519	(225,519)	-
Total revenue, gains and other support	31,729,435	1,482,146	33,211,581
Expenses:			
Program services:			
Treatment and assessment services	14,276,199	-	14,276,199
Residential services	5,654,434	-	5,654,434
Psychosocial and psychiatric rehabilitation services	1,952,016	-	1,952,016
Case management and intake services	1,524,445	-	1,524,445
Prevention and education services	2,304,049	-	2,304,049
Total program expenses	25,711,143	-	25,711,143
Supporting services:			
Management and general	5,479,437	-	5,479,437
Total expenses	31,190,580	-	31,190,580
Change in net assets before other income	538,855	1,482,146	2,021,001
Other income:			
Gain on disposal of property and equipment	10,000	-	10,000
Change in net assets	548,855	1,482,146	2,031,001
Net assets:			
Beginning	3,438,177	-	3,438,177
Ending	$ 3,987,032	$ 1,482,146	$ 5,469,178

See notes to financial statements.

Holcomb Associates, Inc.

Statement of Functional Expenses
Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	Program Services								
	Treatment Assessment and Services	Residential Services	Psychosocial and Psychiatric Rehabilitation Services	Prevention and Education Services	Case Management and Intake Services	Total Program Expenses	Management and General	2023 Total	2022 Total
Salaries	$ 10,876,392	$ 2,849,732	$ 1,208,491	$ 581,787	$ 1,809,839	$ 17,326,241	$ 1,536,076	$ 18,862,317	$ 16,954,695
Salaries overtime	361,412	462,477	85,946	225	11,336	921,396	7,262	928,658	687,715
Temporary labor	639,303	450,750	-	6,360	-	1,096,413	62,619	1,159,032	1,053,862
Fringe benefits	2,654,310	676,792	266,578	130,838	474,594	4,203,112	360,631	4,563,743	3,843,327
Consultants and contractual	15,227	1,304	1,148	-	11,118	28,797	157,672	186,469	159,584
Telephone	283,205	89,780	31,391	19,108	55,564	479,048	75,500	554,548	459,564
Office and other expenses	417,891	162,321	44,286	54,575	49,839	728,912	404,770	1,133,682	940,701
Vehicle leases, operation and travel	164,099	92,398	15,421	14,921	100,785	387,624	70,129	457,753	360,349
Building, equipment and furnishings	114,757	11,994	4,588	847	1,698	133,884	657,437	791,321	452,081
Repairs to furnishings and equipment	282,580	111,051	41,453	13,196	26,233	474,513	74,821	549,334	422,519
Housekeeping supplies	7,717	8,337	2,941	112	78	19,185	-	19,185	28,672
Rent and interest expense (Notes 4 and 6)	923,062	664,559	336,749	137,080	105,899	2,167,349	520,176	2,687,525	2,346,939
Utilities	97,854	150,508	36,420	9,638	18,683	313,103	31,742	344,845	312,890
Food	34,063	127,367	6,407	-	92	167,929	-	167,929	130,342
Training supplies and equipment	-	343	-	9,251	-	9,594	-	9,594	11,225
Medical supplies and equipment	2,184	1,011	-	-	-	3,195	94	3,289	1,411
Program activities	67,199	14,367	1,971	148,985	42,177	274,699	1,320	276,019	377,163
Bad debt	777	-	-	-	165	942	350,000	350,942	159,907
Depreciation and amortization (Note 2)	80,675	79,014	16,591	5,248	14,151	195,679	209,571	405,250	434,716
Management fees (Note 7)	-	-	-	-	-	-	2,447,024	2,447,024	2,052,918
Total expenses	$ 17,022,707	$ 5,954,105	$ 2,100,381	$ 1,132,171	$ 2,722,251	$ 28,931,615	$ 6,966,844	$ 35,898,459	$ 31,190,580

See notes to financial statements.

Holcomb Associates, Inc.

Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services							
	Treatment Assessment and Services	Residential Services	Psychosocial and Psychiatric Rehabilitation Services	Prevention and Education Services	Case Management and Intake Services	Total Program Expenses	Management and General	2022 Total
Salaries	$ 9,310,337	$ 2,813,505	$ 1,097,269	$ 709,645	$ 1,531,545	$ 15,462,301	$ 1,492,394	$ 16,954,695
Salaries overtime	142,753	444,340	49,075	1,882	11,712	649,762	37,953	687,715
Temporary labor	692,505	222,247	7,522	45,175	13,520	980,969	72,893	1,053,862
Fringe benefits	2,329,949	764,782	274,847	184,492	395,127	3,949,197	(105,870)	3,843,327
Consultants and contractual	1,923	-	-	-	-	1,923	157,661	159,584
Telephone	208,547	85,584	29,975	23,442	48,781	396,329	63,235	459,564
Office and other expenses	303,650	196,936	46,818	44,926	51,297	643,627	297,074	940,701
Vehicle leases, operation and travel	97,709	110,861	28,038	25,544	52,168	314,320	46,029	360,349
Building, equipment and furnishings	55,292	27,188	8,611	1,642	5,101	97,834	354,247	452,081
Repairs to furnishings and equipment	162,970	98,285	31,810	14,431	23,111	330,607	91,912	422,519
Housekeeping supplies	7,959	14,574	5,427	21	95	28,076	596	28,672
Rent and interest expense (Notes 4 and 6)	784,117	585,467	325,150	132,012	113,279	1,940,025	406,914	2,346,939
Utilities	87,508	136,705	29,597	8,533	23,976	286,319	26,571	312,890
Food	18,328	103,514	8,364	136	-	130,342	-	130,342
Training supplies and equipment	568	131	-	10,526	-	11,225	-	11,225
Medical supplies and equipment	65	1,346	-	-	-	1,411	-	1,411
Program activities	30,592	7,554	1,299	312,920	24,150	376,515	648	377,163
Bad debt	1,866	-	-	-	41	1,907	158,000	159,907
Depreciation and amortization (Note 2)	39,561	41,415	8,214	9,118	10,146	108,454	326,262	434,716
Management fees (Note 7)	-	-	-	-	-	-	2,052,918	2,052,918
Total expenses	$ 14,276,199	$ 5,654,434	$ 1,952,016	$ 1,524,445	$ 2,304,049	$ 25,711,143	$ 5,479,437	$ 31,190,580

See notes to financial statements.

Holcomb Associates, Inc.

Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	**$ 3,506,948**	$ 2,031,001
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on disposal of property and equipment	**-**	(10,000)
Amortization of right-of-use assets	**1,062,196**	-
Depreciation	**405,250**	434,716
Bad debt expense	**350,942**	159,907
Changes in assets and liabilities:		
(Increase) decrease:		
Accounts receivable	**(123,191)**	(473,553)
Prepaid expenses	**(335,865)**	(3,053)
Due from related party	**(890,323)**	(486,581)
Increase (decrease):		
Accounts payable	**(2,101,373)**	1,840,392
Accrued expenses and other liabilities	**142,981**	190,695
Due to related party	**-**	(3,070,424)
Deferred revenue and refundable advances	**(247,713)**	965,771
Operating lease liabilities	**(993,273)**	-
Deferred rent	**-**	22,483
Deferred payroll taxes	**-**	(376,773)
Net cash provided by operating activities	**776,579**	1,224,581
Cash flows from investing activities:		
Proceeds from sale of property	**-**	10,000
Acquisition of property and equipment	**(388,845)**	(452,742)
Changes in deposits on leased and other property	**(4,699)**	(5,793)
Net cash used in investing activities	**(393,544)**	(448,535)
Cash flows from financing activities:		
Principal payments on mortgages and notes payable	**(7,393)**	(8,390)
Payments on finance lease obligations	**(55,548)**	-
Net cash used in financing activities	**(62,941)**	(8,390)
Increase in cash and cash equivalents	**320,094**	767,656
Cash and cash equivalents:		
Beginning of year	**5,009,119**	4,241,463
End of year	**$ 5,329,213**	$ 5,009,119

(Continued)

Holcomb Associates, Inc.

Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022

		2023		2022
Supplemental disclosures of cash flow information:				
Cash paid during the year for interest	**$**	**76,612**	$	73,610
Supplemental disclosures of noncash investing activities:				
Fixed asset purchases included in accounts payable	**$**	**-**	$	22,174
Supplemental cash flow information related to leases is as follows:				
Cash paid for amounts included in measurement of lease liabilities:				
Operating cash outflows—payments on operating leases	**$**	**993,273**	**$**	**-**
Financing cash outflows—payments on finance leases		**55,548**		**-**
Total cash paid for amounts included in measurement of lease liabilities	**$**	**1,048,821**	**$**	**-**
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	**$**	**7,387,957**	**$**	**-**
Finance leases		**255,679**		**-**
Total right-of-use asset obtained	**$**	**7,643,636**	**$**	**-**
Lease liability:				
Operating leases	**$**	**7,662,431**	**$**	**-**
Finance leases		**255,679**		**-**
Total lease liability	**$**	**7,918,110**	**$**	**-**
Deferred rent liability prior year	**$**	**274,474**	**$**	**-**

See notes to financial statements.

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of activities: Holcomb Associates, Inc. (the Organization) is a Pennsylvania organization founded in 1979, and 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.

A summary of significant accounting policies of the Organization is as follows:

Basis of accounting: The Organization’s financial statements are presented on the accrual basis of accounting. Under this basis, revenue is recognized in the period earned and expenses are recognized in the period incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Not-for-Profit Entities topic of the Accounting Standards Codification (ASC). The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Represent resources that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations.

Net assets with donor restrictions: Represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to these stipulations. Net assets may be restricted for various purposes, such as use in future periods or use for specified parties.

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.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Financial risk: The Organization has deposits in a financial institution in excess of amounts insured by the Federal Deposit Insurance Organization (FDIC). The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual accounts receivable and considering a customer's financial condition, credit history and current economic conditions. The allowance for doubtful accounts at June 30, 2023 and 2022, was $727,776 and $586,602, respectively. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Property and equipment: Property and equipment purchased by the Organization are recorded at cost. Capital assets are stated at cost using a minimum capitalization policy of $2,500. Donated assets are recorded at fair value on the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	39 years
Automobiles	5 years
Furnishings and equipment	5-7 years
Leasehold improvements	Shorter of the lease term or useful life

Valuation of long-lived assets: The Organization reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the net carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Leases: In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Organization adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, The Organization has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with The Organization's historical accounting treatment under ASC Topic 840, Leases.

The Organization elected the package of practical expedients under the transition guidance within Topic 842, in which The Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases or (3) the initial direct costs for any existing leases.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

The Organization has not elected to adopt the hindsight practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) The Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, The Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to The Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Organization’s operating leases of $7,387,957 and $7,662,431, respectively, and finance leases of $255,679 and $255,679, respectively, at July 1, 2022. The adoption of the new lease standard did not materially impact the consolidated change in net assets or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Revenue recognition: The Organization's revenue is primarily derived from conditional grants and third-party reimbursements from various state and local government agencies. State and local grants are deemed to be earned and reported as revenue when the Organization has met the barrier of incurring expenditures in compliance with the specific grant restrictions. Grant expenditures made, pending reimbursement, are recorded as accounts receivable.

Mental health services are recognized as revenue at the point in time certain agreed upon services are provided to clients or members. These services are a result of contracts to provide mental health services based on contracts between insurance carriers and certain Pennsylvania counties with the Organization. The revenue is determined based on a fee schedule agreed to by both parties.

Unconditional contributions are recognized as revenue upon receipt, or when unconditional promises to give are received. Conditional contributions are recognized when donor-imposed conditions are substantially met. These revenues are subject to right of return if funds are not spent and also have barriers that must be met in order to be entitled to funds. Accordingly, amounts received, but not yet recognized as revenue, are classified as refundable advances in the statements of financial position. There are no additional revenues to be earned on various conditional grants as of June 30, 2023 and 2022, respectively.

Functional allocation of expenses: The costs of providing various program and supporting services have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated between the programs and supporting services benefited. Salaries and benefits are allocated based on estimates of time and effort.

Depreciation, utilities, occupancy and repairs and maintenance costs are allocated based on square footage of the cost centers benefited.

Income taxes: The Organization has been recognized as a nonprofit 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.

Recently adopted accounting pronouncement: On September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958)*: *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The amendments in this ASU is intended to increase the transparency of contributed nonfinancial assets, or gifts-in-kind, for not-for-profit entities through enhanced presentation and disclosure. The adoption resulted in expanded disclosures around contributed nonfinancial assets. The Organization adopted this pronouncement as of July 1, 2022, however there was no material impact on the financial statements.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Pending accounting pronouncement: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement activities as the amounts expected to be collected change. ASU 2016-13 is effective for the Organization as of July 1, 2023. The Organization is currently in the process of evaluating the impact of the new accounting guidance on its financial statements.

Subsequent events: The Organization evaluated subsequent events through January 29, 2024, which is the date the financial statements were available to be issued.

Note 2. Property and Equipment

Major classes of property and equipment at June 30, 2023 and 2022, are as follows:

	2023	2022
Land	$ 614,000	$ 610,500
Buildings and improvements	4,209,950	4,121,947
Automobiles	1,235,697	1,133,584
Furnishings and equipment	2,870,601	2,788,739
Leasehold improvements	1,023,856	910,489
Total property and equipment	9,954,104	9,565,259
Less accumulated depreciation	(5,894,223)	(5,488,973)
Net property and equipment	$ 4,059,881	$ 4,076,286

Depreciation on these assets for the years ended June 30, 2023 and 2022, was $405,250 and $434,716, respectively.

Note 3. Line of Credit

In October 2018, the Organization entered into a new line of credit agreement (consolidated line of credit) with Chimes International Inc. (International) and its related entities (The Chimes, Inc., Chimes Virginia, Inc. and Chimes Metro, Inc.) for which the Organization is jointly and severally liable. At June 30, 2022, the International line of credit bared interest at the one-month London Interbank Offered Rate (LIBOR) plus 175 basis points (4.04% at June 30, 2022). As of October 20, 2022, the International line of credit bears interest at the one month Secured Overnight Funding Rate (SOFR) plus 175 basis points (6.82% at June 30, 2023). The International line of credit was renewed in March 2022 and is scheduled to mature March 31, 2025. There was no outstanding balance for the International line of credit as of June 30, 2023 and 2022.

Note 4. Mortgages and Notes Payable

In June 2019, the Organization entered into a term loan note with Truist Bank for $10,400,000 with International and its related entities (The Chimes, Inc., Chimes Virginia, Inc. and Chimes Metro, Inc.) of which the Organization is jointly and severally liable. The liability of $7,838,085 and $8,517,424 is recorded on International's consolidated statements of financial position as of June 30, 2023 and 2022, respectively.

On June 19, 2019, International and its related entities, including the Organization, also entered into an interest rate swap agreement related to its refinanced credit with Truist Bank in the initial notional amount of $10,400,000 and maturity date of October 20, 2032. The asset of $571,983 and $271,431 is recorded on International's consolidated statements as of June 30, 2023 and 2022, respectively.

On October 23, 2020, the Organization entered into a mortgage agreement in the amount of $154,700 to purchase a residential property. The mortgage requires monthly principal and interest payments of $1,169 beginning on November 23, 2020 and has a fixed interest rate of 4.25%. The mortgage matures on November 20, 2032 and has an outstanding balance of $134,700 and $142,093 as of June 30, 2023 and 2022, respectively.

The future mortgage payments required for the next five years and thereafter as of June 30, 2023, are as follows:

Years ending June 30:	
2024	$ 8,403
2025	8,788
2026	9,174
2027	9,577
2028	9,987
Thereafter	88,771
	$ 134,700

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2023	2022
Subject to expenditure for a specific purpose or period:		
Recruitment and retention of employees	$ 3,691,012	$ 1,482,146
	$ 3,691,012	$ 1,482,146

There were additions of $2,485,502 and $1,707,665 and releases of $276,636 and $225,519 restricted for the recruitment and retention of employees and releases for the year ended June 30, 2023 and 2022, respectively.

Note 6. Leases

The Organization leases certain office space, residential space, and equipment with remaining lease terms of less than one year to twelve years. Some leases include one or more options to renew, with renewal terms that can extend the lease term up to ten years. Only lease options that the Organization believes are reasonably certain to exercise or the renewal option rests with the lessor are included in the measurement of the lease assets and liabilities. Some leases contain various termination clauses. These termination options are not expected to be exercised.

Operating lease cost and sub-lease income are recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The components of lease expense are as follows for the year ended June 30, 2023:

Amortization of finance lease ROU assets	$	54,944
Interest on finance lease liabilities		5,223
Amortization of operating lease ROU assets		1,007,252
Interest on operating lease liabilities		229,251
Variable lease costs and short term leases		1,390,855
	$	2,687,525

Rent expense for the years ended June 30, 2022, was $2,250,346.

Supplemental information regarding assumptions and cash flows for the operating leases is as follows for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases (i.e., Interest)	$	5,223
Financing cash flows from finance leases (i.e., principal portion)	$	55,548
Operating cash flows from operating leases	$	993,273
ROU assets obtained in exchange for new finance lease liabilities	$	255,679
ROU assets obtained in exchange for new operating lease liabilities, net deferred rent	$	7,387,957

The weighted-average remaining lease terms and discount rates for operating and finance leases are as follows as of June 30, 2023:

Weighted-average remaining lease term in years for finance leases	2.97 years
Weighted-average remaining lease term in years for operating leases	7.53 years
Weighted-average discount rate for finance leases	3.49%
Weighted-average discount rate for operating leases	2.93%

Note 6. Leases (Continued)

As of June 30, 2023 maturities of lease liabilities were as follows:

	Finance	Operating
Years ending June 30:		
2024	$ 79,366	$ 1,164,145
2025	67,869	1,131,456
2026	50,079	1,049,314
2027	13,054	1,002,856
2028	-	828,784
Thereafter	-	2,284,917
Total lease payments	210,368	7,461,472
Less present value discount	(10,237)	(792,314)
Present value of lease liabilities	$ 200,131	$ 6,669,158

The Organization's lease agreement for its administrative office has a provision for rent payments with fixed annual increases. In accordance with U.S. GAAP prior to the adoption of Topic ASC 842, the total rent commitment was 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 financial statement purposes is recorded as deferred rent. The balance of deferred rent was $274,474 as of June 30, 2022. The deferred rent amount was previously amortized as an offset to rent expense over the lease term. In connection with the adoption of Topic 842, as of July 1, 2022, deferred rent was reclassified as a reduction to the ROU assets.

As of June 30, 2022, future minimum lease commitments, as determined under Topic 840, for all noncancelable leases were as follows:

Years ending June 30:	
2023	$ 1,740,485
2024	898,052
2025	863,661
2026	820,888
2027	800,759
Thereafter	691,903
	$ 5,815,748

Note 7. Related-Party Transactions

International, an organization recognized as a 501(c)(3) nonprofit organization by the Internal Revenue Service, is the sole member of the Organization. International provides management services to its affiliates. Management fee expense to International was $2,447,024 and $2,052,918 for the years ended June 30, 2023 and 2022, respectively.

The Organization has made and received advances to and from International. No interest accrues on these advances. There is a balance due to Holcomb from International in the amount of $1,376,904 and $486,581 as of June 30, 2023 and 2022, respectively.

Note 8. Pension Plan

The Organization has a 403(b) retirement 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, 2023 and 2022, were $269,100 and $248,931, respectively.

Note 9. Liquidity and Availability

The Organization monitors liquidity required to meet its annual operating needs and other contractual commitments. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. In the event of an unanticipated liquidity need, the Organization can draw down from its line of credit (see Note 3).

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2023 and 2022, are as follows:

	2023	2022
Cash and equivalents	$ 5,329,213	$ 5,009,119
Accounts receivable, net	3,168,350	3,396,101
Total financial assets available	8,497,563	8,405,220
Less net assets with donor restrictions	(3,691,012)	(1,482,146)
Financial assets available to meet operating needs over the next 12 months	$ 4,806,551	$ 6,923,074

Note 10. Commitments and Contingencies

The Commonwealth of Pennsylvania 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 financial statements.

The Organization acts as an agent on behalf of individuals served regarding the holding of consumer cash funds. At June 30, 2023 and 2022, the Organization was holding $70,646 and $82,701, respectively, in consumer funds, which are reflected as both an asset and liability in the statements of financial position.

Legal contingencies: The Organization is involved in litigation arising in the ordinary course of business. 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 financial statements of the Organization.

Note 11. Subsequent Events

Effective September 1, 2023, the Organization entered into one operating lease for office space. The lease has an initial term of 64 months and provides for one five-year renewal option. The lease agreement also provides for annual rent escalations, which are amortized over the lives of the respective lease. Future minimum lease payments under this agreement approximate $551,000.