The Chimes, Inc. and Subsidiary

Consolidated Financial Report
June 30, 2023

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
The Chimes, Inc.

Report on the Financial Statements

Opinion

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

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 Standards 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

The Chimes, Inc. and Subsidiary

Consolidating Statements of Financial Position
June 30, 2023 and 2022

	Chimes— Maryland	CES	2023	2022
Assets				
Current assets:				
Cash and cash equivalents	$ 8,433	$ -	$ 8,433	$ 8,572
Resident funds (Note 10)	376,894	-	376,894	352,418
Accounts receivable, net (Note 1)	1,753,177	-	1,753,177	968,345
Prepaid expenses	202,185	-	202,185	143,388
Total current assets	2,340,689	-	2,340,689	1,472,723
Noncurrent assets:				
Right-of-use asset, operating leases, net (Note 6)	2,133,573	-	2,133,573	-
Right-of-use asset, finance leases, net (Note 6)	1,701,384	-	1,701,384	-
Property and equipment, net (Note 2)	16,060,441	-	16,060,441	15,455,055
Other noncurrent assets	10,284	-	10,284	9,763
Total noncurrent assets	19,905,682	-	19,905,682	15,464,818
Total assets	$ 22,246,371	$ -	$ 22,246,371	$ 16,937,541
Liabilities and Net Assets				
Current liabilities:				
Current maturities of long-term debt (Note 3)	$ 83,385	$ -	$ 83,385	$ 96,151
Accounts payable	837,023	-	837,023	1,060,431
Accrued expenses and other liabilities	3,064,771	-	3,064,771	2,917,915
Resident funds payable (Note 10)	376,894	-	376,894	352,418
Operating lease liabilities, current (Note 6)	95,932	-	95,932	-
Finance lease liabilities, current (Note 6)	492,950	-	492,950	-
Due to third-party payors (Note 8)	7,368,354	-	7,368,354	2,779,833
Due to related parties, net (Note 7)	2,741,056	430,389	3,171,445	2,194,464
Total current liabilities	15,060,365	430,389	15,490,754	9,401,212
Long-term liabilities:				
Loans payable—related party, net (Note 3)	42,446	-	42,446	120,071
Operating lease liabilities, noncurrent (Note 6)	2,168,600	-	2,168,600	-
Finance lease liabilities, noncurrent (Note 6)	1,193,664	-	1,193,664	-
Total long-term liabilities	3,404,710	-	3,404,710	120,071
Total liabilities	18,465,075	430,389	18,895,464	9,521,283
Net assets (deficit) without donor restrictions	3,781,296	(430,389)	3,350,907	7,416,258
Total liabilities and net assets	$ 22,246,371	$ -	$ 22,246,371	$ 16,937,541

See notes to consolidated financial statements.

The Chimes, Inc. and Subsidiary

Consolidating Statement of Financial Position
June 30, 2022

	Chimes—Maryland	CES	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 8,572	$ -	$ 8,572
Resident funds (Note 10)	352,418	-	352,418
Accounts receivable, net (Note 1)	968,345	-	968,345
Prepaid expenses	143,388	-	143,388
Total current assets	1,472,723	-	1,472,723
Noncurrent assets:			
Property and equipment, net (Note 2)	15,455,055	-	15,455,055
Other noncurrent assets	9,763	-	9,763
Total noncurrent assets	15,464,818	-	15,464,818
Total assets	$ 16,937,541	$ -	$ 16,937,541
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt (Note 3)	$ 96,151	$ -	$ 96,151
Accounts payable	1,060,431	-	1,060,431
Accrued expenses and other liabilities	2,917,915	-	2,917,915
Resident funds payable (Note 10)	352,418	-	352,418
Due to third-party payors (Note 8)	2,779,833	-	2,779,833
Due to related parties, net (Note 7)	1,764,075	430,389	2,194,464
Total current liabilities	8,970,823	430,389	9,401,212
Long-term liabilities:			
Loans payable—related party, net (Note 3)	120,071	-	120,071
Total long-term liabilities	120,071	-	120,071
Total liabilities	9,090,894	430,389	9,521,283
Net assets (deficit) without donor restrictions	7,846,647	(430,389)	7,416,258
Total liabilities and net assets	$ 16,937,541	$ -	$ 16,937,541

See notes to consolidated financial statements.

The Chimes, Inc. and Subsidiary

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

	Chimes—Maryland	CES	2023	2022
Revenue and other support:				
Residential	**$ 25,838,497**	**$ -**	**$ 25,838,497**	$ 24,634,393
Vocational	**7,970,230**	**-**	**7,970,230**	5,674,382
Educational	**2,886,349**	**-**	**2,886,349**	3,766,485
Other programs	**3,906,500**	**-**	**3,906,500**	3,693,256
Miscellaneous	**1,031,677**	**-**	**1,031,677**	1,066,509
Total revenue and other support	**41,633,253**	**-**	**41,633,253**	38,835,025
Expenses:				
Residential	**25,072,879**	**-**	**25,072,879**	22,159,974
Vocational	**8,439,085**	**-**	**8,439,085**	5,878,456
Educational	**3,636,374**	**-**	**3,636,374**	3,485,121
Support services	**3,033,467**	**-**	**3,033,467**	2,833,396
Management and general	**5,531,390**	**-**	**5,531,390**	4,655,434
Total expenses	**45,713,195**	**-**	**45,713,195**	39,012,381
Operating income (loss)	**(4,079,942)**	**-**	**(4,079,942)**	(177,356)
Other operating income:				
Gain on disposition of property and equipment	**14,591**	**-**	**14,591**	3,000
Change in net assets	**(4,065,351)**	**-**	**(4,065,351)**	(174,356)
Net assets (deficit) without donor restrictions:				
Beginning	**7,846,647**	**(430,389)**	**7,416,258**	7,590,614
Ending	**$ 3,781,296**	**$ (430,389)**	**$ 3,350,907**	$ 7,416,258

See notes to consolidated financial statements.

The Chimes, Inc. and Subsidiary

Consolidating Statement of Activities
Year Ended June 30, 2022

	Chimes—Maryland	CES	Total
Revenue and other support:			
Residential	$ 24,634,393	$ -	$ 24,634,393
Vocational	5,674,382	-	5,674,382
Educational	3,766,485	-	3,766,485
Other programs	3,693,256	-	3,693,256
Miscellaneous	1,066,509	-	1,066,509
Total revenue and other support	38,835,025	-	38,835,025
Expenses:			
Residential	22,159,974	-	22,159,974
Vocational	5,878,456	-	5,878,456
Educational	3,485,121	-	3,485,121
Support services	2,833,396	-	2,833,396
Management and general	4,655,434	-	4,655,434
Total expenses	39,012,381	-	39,012,381
Operating income (loss)	(177,356)	-	(177,356)
Other operating income:			
Gain on disposition of property and equipment	3,000	-	3,000
Change in net assets	(174,356)	-	(174,356)
Net assets (deficit) without donor restrictions:			
Beginning	8,021,003	(430,389)	7,590,614
Ending	$ 7,846,647	$ (430,389)	$ 7,416,258

See notes to consolidated financial statements.

The Chimes, Inc. and Subsidiary

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

	Program Services							
	Residential	Vocational	Educational	Support Services	Total Program Services	Management and General	2023 Expenses	2022 Expenses
Salaries	$ 12,134,331	$ 4,899,765	$ 1,926,483	$ 1,209,731	$ 20,170,310	$ 1,102,692	$ 21,273,002	$ 18,104,969
Salaries overtime	2,929,741	106,075	19,070	84,162	3,139,048	13,828	3,152,876	2,666,538
Temporary labor	2,318,871	93,981	94,176	-	2,507,028	28,767	2,535,795	2,072,618
Fringe benefits (Note 4)	3,112,763	1,125,288	410,814	255,822	4,904,687	446,706	5,351,393	4,683,803
Consultants and contractual	456,517	70,853	361,330	35,480	924,180	1,913	926,093	997,722
Telephone	145,375	100,972	12,524	1,419	260,290	65,471	325,761	298,582
Office expenses	383,800	239,253	112,162	23,723	758,938	281,284	1,040,222	872,229
Vehicle leases, operation and travel	355,071	267,764	4,577	22,296	649,708	92,844	742,552	818,626
Building, equipment and furniture	77,279	26,222	2,662	-	106,163	13,447	119,610	82,703
Repairs and maintenance	345,225	127,139	79,501	5,354	557,219	43,404	600,623	440,380
Housekeeping supplies	100,820	11,736	21	39	112,616	778	113,394	93,873
Contract expenses	299,476	194,189	73,937	1,358	568,960	15,646	584,606	514,980
Rent and interest expense (Notes 3 and 5)	316,981	438,854	62,614	-	818,449	58,024	876,473	276,341
Utilities	466,457	106,385	43,106	1,365	617,313	3,808	621,121	645,012
Client transportation	-	244,363	-	-	244,363	(4,226)	240,137	74,087
Supplemental expenses	1,949	-	-	-	1,949	-	1,949	1,889
Food	965,503	7,355	49,835	-	1,022,693	2,587	1,025,280	966,574
Disposable supplies	-	-	-	-	-	-	-	209
Kitchen and food service supplies	-	-	49	77	126	-	126	-
Training	1,970	630	147,156	-	149,756	-	149,756	5,734
Medical supplies and equipment	34,621	9,901	476	-	44,998	4	45,002	52,592
Program activities	2,253	23,787	12,720	66	38,826	2,319	41,145	21,677
Purchase of services	-	-	83,385	1,390,265	1,473,650	-	1,473,650	1,674,663
Bad debt	-	-	-	-	-	402,355	402,355	99,066
Depreciation and amortization (Note 2)	623,876	344,573	139,776	2,310	1,110,535	141,376	1,251,911	1,016,914
Management fees (Note 7)	-	-	-	-	-	2,818,363	2,818,363	2,530,600
Total	$ 25,072,879	$ 8,439,085	$ 3,636,374	$ 3,033,467	$ 40,181,805	$ 5,531,390	$ 45,713,195	$ 39,012,381

See notes to consolidated financial statements.

The Chimes, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services						
	Residential	Vocational	Educational	Support Services	Total Program Services	Management and General	Total Expenses
Salaries	$ 10,654,283	$ 3,328,166	$ 2,114,005	$ 1,033,827	$ 17,130,281	$ 974,688	$ 18,104,969
Salaries overtime	2,407,795	216,931	22,623	6,815	2,654,164	12,374	2,666,538
Temporary labor	1,960,524	343	101,730	108	2,062,705	9,913	2,072,618
Fringe benefits (Note 4)	2,758,763	902,270	433,067	170,138	4,264,238	419,565	4,683,803
Consultants and contractual	577,497	44,865	286,554	645	909,561	88,161	997,722
Telephone	154,662	95,812	6,360	2,090	258,924	39,658	298,582
Office expenses	344,380	176,650	84,690	18,200	623,920	248,309	872,229
Vehicle leases, operation and travel	425,519	296,115	7,212	7,624	736,470	82,156	818,626
Building, equipment and furniture	58,463	20,862	3,121	-	82,446	257	82,703
Repairs and maintenance	342,780	58,557	30,103	173	431,613	8,767	440,380
Housekeeping supplies	85,365	7,884	126	299	93,674	199	93,873
Contract expenses	287,789	122,638	66,499	891	477,817	37,163	514,980
Rent and interest expense (Notes 3 and 5)	134,278	112,846	-	-	247,124	29,217	276,341
Utilities	492,114	97,222	50,182	2,747	642,265	2,747	645,012
Client transportation	-	74,087	-	-	74,087	-	74,087
Supplemental expenses	1,889	-	-	-	1,889	-	1,889
Food	906,601	-	51,941	447	958,989	7,585	966,574
Disposable supplies	-	-	-	-	-	209	209
Kitchen and food service supplies	-	-	-	-	-	-	-
Training	1,710	365	3,659	-	5,734	-	5,734
Medical supplies and equipment	35,933	1,117	6,677	40	43,767	8,825	52,592
Program activities	3,143	11,868	6,343	112	21,466	211	21,677
Purchase of services	4,224	-	83,385	1,587,054	1,674,663	-	1,674,663
Bad debt	26,311	8,241	-	-	34,552	64,514	99,066
Depreciation and amortization (Note 2)	495,951	301,617	126,844	2,186	926,598	90,316	1,016,914
Management fees (Note 6)	-	-	-	-	-	2,530,600	2,530,600
Total	$ 22,159,974	$ 5,878,456	$ 3,485,121	$ 2,833,396	$ 34,356,947	$ 4,655,434	$ 39,012,381

See notes to consolidated financial statements.

The Chimes, Inc. and Subsidiary

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

	2023	2022
Cash flows from operating activities:		
Change in net assets	**$ (4,065,351)**	$ (174,356)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on disposal of property and equipment	**(14,591)**	(3,000)
Amortization of right-of-use assets	**498,894**	-
Depreciation	**1,251,911**	1,016,914
Bad debt expense	**402,355**	99,066
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Due from related parties	**-**	1,567,014
Accounts receivable	**(1,187,187)**	(362,319)
Prepaid expenses	**(58,797)**	51,926
Other noncurrent assets	**(521)**	(8,203)
Increase (decrease) in:		
Due to related parties	**976,983**	2,194,462
Accounts payable	**(229,408)**	(193,322)
Accrued expenses and other liabilities	**224,557**	(278,057)
Due to third-party payors	**4,588,521**	(2,108,596)
Operating lease liabilities	**(75,053)**	-
Deferred payroll taxes	**-**	(428,786)
Net cash provided by operating activities	**2,312,313**	1,372,743
Cash flows from investing activities:		
Acquisition of property and equipment	**(1,836,706)**	(1,281,365)
Proceeds from sale of property and equipment	**-**	3,000
Net cash used in investing activities	**(1,836,706)**	(1,278,365)
Cash flows from financing activities:		
Principal payments on loans—related party	**(90,391)**	(94,514)
Payments on finance lease obligations	**(385,355)**	-
Net cash used in financing activities	**(475,746)**	(94,514)
Net decrease in cash and cash equivalents	**(139)**	(136)
Cash and cash equivalents:		
Beginning	**8,572**	8,708
Ending	**$ 8,433**	$ 8,572

(Continued)

The Chimes, Inc. and Subsidiary

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

		2023		2022
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**40,261**	$	43,108
Fixed assets included in accounts payable	**$**	**6,000**	$	346,933
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	**$**	**75,053**	**$**	**-**
Financing cash outflows—payments on finance leases		**385,355**		**-**
Total cash paid for amounts included in measurement of lease liabilities	**$**	**460,408**	**$**	**-**
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	**$**	**-**	**$**	**-**
Finance leases		**-**		**-**
Total right-of-use asset obtained	**$**	**-**	**$**	**-**
Lease liability:				
Operating leases	**$**	**77,703**	**$**	**-**
Finance leases		**-**		**-**
Total lease liability	**$**	**77,703**	**$**	**-**
Deferred rent liability prior year	**$**	**77,703**	**$**	**-**

See notes to consolidated financial statements.

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

Nature of activities: The Chimes, Inc. and Subsidiary (the Organization) is comprised of The Chimes, Inc. (Chimes—Maryland) and Chimes Employment Services (CES) for the years ended June 30, 2023 and 2022. Chimes—Maryland is a 501(c)(3) not-for-profit organization and CES is a single member LLC wholly-owned by Chimes Maryland.

Chimes—Maryland provides services to people with disabilities living in the state of Maryland. Chimes—Maryland provides programs in the areas of residential, vocational, educational and administrative services. Residential programs provide housing with varying levels of supervision, dependent upon the consumers' needs. Vocational programs offer both vocational and skill training that prepares consumers for job opportunities. Educational programs teach consumers from ages 6 to 21 various academic, motor, social and basic living skills.

CES is an employment services program that also serves the aforementioned people and those with other disabilities and barriers to independent living as well as people who are economically disadvantaged. CES was founded January 1, 2014, and is a disregarded entity of Chimes—Maryland. CES had no financial activity for the years ended June 30, 2023 and 2022.

All intercompany accounts and transactions have been eliminated between Chimes—Maryland and CES.

Related parties: The following is a summary of entities related to the Organization:

Entity Name	Nature of Relationship
Chimes International Limited (International)	Parent, board drawn from membership of supported organizations
Chimes Metro, Inc. (Chimes—Delaware)	International has sole membership
Chimes District of Columbia, Inc. (Chimes—DC)	Common management
Chimes Virginia, Inc. (Chimes—VA)	International has sole membership
Chimes Foundation, Incorporated (The Chimes Foundation)	Common management
Holcomb Associates, Inc. (Holcomb)	International has sole membership

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

Principles of consolidation: The accompanying consolidated financial statements include the financial statements of Chimes—Maryland and CES. All material intercompany transactions and balances have been eliminated in consolidation.

Basis of accounting: The accompanying consolidated financial statements are presented on the accrual basis of accounting, whereby revenue is recognized when earned, and expenses are recognized when incurred.

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

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. As of June 30, 2023 and 2022, the Organization had no net assets with donor restrictions.

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.

Receivables: Receivables 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. Most of the accounts receivable are due from the federal government, state or other municipalities in Maryland. The allowance for doubtful accounts at June 30, 2023 and 2022, was $568,900 and $89,504, respectively. Accounts receivable is written off when deemed uncollectible. Recoveries of accounts previously written off are recorded when received.

Property and equipment: Property and equipment purchased by the Organization are recorded at cost. Donated furniture, fixtures and equipment received by the Organization are recorded at their fair value at the date of the gift. The Organization’s capitalization policy is $1,000, except where regulation requires a different amount. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	15-40
Land improvements	15
Automobiles	3-5
Furnishings and equipment	3-5
Leasehold improvements	Shorter of lease term or life of the asset

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.

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

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 consolidated balance sheet 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 consolidated statement of activities. 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 consolidated 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 Topic842, 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. 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.

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

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Organization’s operating leases of $2,261,882 and $2,339,585, respectively, and related to the finance leases of $2,071,969 and $2,071,969, 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 United States generally accepted accounting principles (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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: The Organization’s revenues primarily consist of funds from the State of Maryland or municipalities in Maryland. Unexpended funds may be due back to the funding authorities, unless the funding authority allows the Organization to retain such excess. Other revenues are earned under fee for service arrangements.

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 liabilities in the consolidating statements of financial position.

Developmental Disabilities Services are recognized as revenue at the point in time home and community-based services to individuals with developmental disabilities are provided. Chimes—Maryland has a contract with the Developmental Disabilities Administration (DDA), a unit of the Maryland Department of Health, to provide home and community-based services to individuals with a developmental disability in the State of Maryland funded under at least one of the DDA’s Medicaid Section 1915 (c) Waiver programs. Each individual will have an approved Person-Centered Plan (PCP) identifying services that will be provided and each service has a defined unit of revenue to be paid to Chimes—Maryland upon the delivery of the service. Chimes—Maryland is entitled to be compensated for the services provided once the individual’s Person-Centered Plan has been approved by the State.

Community Support Services are recognized as revenue at the point in time home and community-based services to individuals with developmental disabilities are provided. Chimes—Maryland has a contract with the Developmental Disabilities Administration (DDA), a unit of the Maryland Department of Health, to provide home and community-based services to individuals with a developmental disability in the State of Maryland funded under at least one of the DDA’s Medicaid Section 1915 (c) Waiver programs. Each individual will have an approved Person-Centered Plan (PCP) identifying services that will be provided and each service has a defined unit of revenue to be paid to Chimes—Maryland upon the delivery of the service. Chimes—Maryland is entitled to be compensated for the services provided once the individual’s Person-Centered Plan has been approved by the State.

Revenues from the State of Maryland constituted 98% and 99% of total revenue and other support for the years ended June 30, 2023 and 2022, respectively. The concentration of revenue from the State of Maryland area is not expected to have any significant future effect on the Organization.

During the years ended June 30, 2023 and 2022, the Organization received and recognized $711,961, and $764,029, respectively, of unconditional revenue from the American Rescue Plan Act (ARPA) which is recognized in as miscellaneous revenue in the consolidating statements of activities.

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

Due to/from third party payors: Revenue is recognized as earned. Amounts received in advance of the period in which the service is rendered are recorded as a liability under deferred revenue, if any.

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

Functional allocation of expenses: The costs of providing various program and supporting services have been summarized on a functional basis in the accompanying consolidated 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 being exempt from federal and state income taxes under 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 the topic. None of the Organization's activities are subject to the tax on unrelated business income.

Recently adopted accounting pronouncements: On September 2020, the FASB issued ASU 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 consolidated financial statements.

Pending accounting pronouncements: 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 consolidated statement of 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 consolidated financial statements.

Subsequent events: The Organization evaluated subsequent events through January 29, 2024, which is the date the consolidated 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	$ 2,885,305	$ 2,885,305
Buildings and improvements	30,698,348	29,690,836
Land improvements	474,983	395,061
Automobiles	3,517,913	3,754,449
Furnishings and equipment	6,266,110	5,602,365
Leasehold improvements	774,301	774,301
	44,616,960	43,102,317
Less accumulated depreciation	(28,556,519)	(27,647,262)
	$ 16,060,441	$ 15,455,055

Depreciation on these assets for the years ended June 30, 2023 and 2022, was $1,251,911 and $1,016,914, respectively.

Note 3. Short-Term Borrowings

In October 2018, International and its related entities, including Chimes-Maryland entered into a revolving line of credit note (International line of credit) with Truist Bank for $15,300,000 due on demand of which Chimes-Maryland 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. Note Payable and Loans Payable

In June 2019, Chimes—Maryland entered into a term loan note with Truist Bank for $10,400,000, collectively with International and its related entities (Chimes—DC, Chimes—VA, Chimes—Delaware, and Holcomb) of which Chimes—Maryland 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 Chimes—Maryland 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 fair value of the swap asset of $571,983 and $271,431 are recorded on International's consolidated statements as of June 30, 2023 and 2022, respectively.

Note 4. Note Payable and Loans Payable (Continued)

There are three related party loans with The Chimes Foundation that consist of the following as of June 30, 2023 and 2022:

	2023	2022
Loan payable to Foundation, payable until May 2028, monthly installments of $965 including interest at 9.00%	$ 45,918	$ 52,406
Loan payable to Foundation, payable until April 2024, monthly installments of $4,373 including interest at 4.50%	43,009	88,166
Loan payable to Foundation, payable until April 2024, monthly installments of $3,752 including interest at 4.50%	36,904	75,650
Subtotal	125,831	216,222
Less current portion	(83,385)	(96,151)
Total long-term portion	$ 42,446	$ 120,071

Interest expense related to the note payable and loans payable—related party collateralized by the Organization included in the consolidating statements of activities for the years ended June 30, 2023 and 2022, were $40,261 and $43,108, respectively.

Payments of principal during the next five years and thereafter on loans payable—related party, as of June 30, 2023, are as follows:

Years ending June 30:	
2024	$ 83,385
2025	8,494
2026	9,291
2027	10,239
2028	14,422
	$ 125,831

Note 5. Retirement Plans

Chimes—Maryland has a 403(b) plan covering substantially all employees. The Organization contributes 2.5% of the annual salaries of qualifying participants. The Organization also matches employee contributions up to 3% of the annual salaries of qualifying participants. The 403(b) contribution expense for the years ended June 30, 2023 and 2022, were $586,973 and $552,947, respectively.

Note 6. Leases

The Organization leases certain office space, equipment, and vehicles with remaining lease terms of less than one year to fifteen 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 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.

Note 6. Leases (Continued)

The components of lease expense are as follows for the year ended June 30, 2023:

Amortization of finance lease ROU assets	$	370,585
Interest on finance lease liabilities		47,130
Amortization of operating lease ROU assets		128,309
Interest on operating lease liabilities		63,833
Variable lease costs and short term leases		266,616
	$	876,473

Rent expense for the year ended June 30, 2022 was $105,248.

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

Operating cash flows from finance leases (i.e. Interest)	$	47,130
Financing cash flows from finance leases (i.e. principal portion)	$	385,355
Operating cash flows from operating leases	$	75,053
ROU assets obtained in exchange for new finance lease liabilities	$	2,071,969
ROU assets obtained in exchange for new operating lease liabilities, net deferred rent	$	2,261,882

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	3.79 years
Weighted-average remaining lease term in years for operating leases	14.08 years
Weighted-average discount rate for finance leases	3.40%
Weighted-average discount rate for operating leases	3.12%

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

		Finance Leases		Operating Leases
Years ending June 30:				
2024	$	541,136	$	164,807
2025		490,851		169,751
2026		434,289		174,844
2027		283,067		180,089
2028		40,468		185,492
Thereafter		-		1,961,981
Total lease payments		1,789,811		2,836,964
Less present value discount		(103,197)		(572,432)
Present value of lease liabilities	$	1,686,614	$	2,264,532

Note 6. Leases (Continued)

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, 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 financial statement purposes is recorded as deferred rent. The balance of deferred rent was $77,635 as of June 30, 2022. The deferred rent amount is amortized as an offset to rent expense over the lease term. In connection with the adoption of ASC 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:

2023	$ 213,973
2024	177,653
2025	177,653
2026	177,653
2027	177,653
Thereafter	829,049
	$ 1,753,634

Note 7. Related-Party Transactions

The Organization has made and received advances to and from Chimes International. No interest accrues on these advances and they are due on demand. As of June 30, 2023 and 2022, the Organization recorded a payable of $3,171,445 and $2,194,462, respectively, due to Chimes International.

Chimes International provides management services to its affiliates. Management fee expense to International was $2,818,363 and $2,530,600 for the years ended June 30, 2023 and 2022, respectively.

Note 8. Due From/To Third-Party Payors

Revenue is recognized from federal and state grants and reimbursement for services is provided by state agencies based on per diem rates. Subsequent to year-end, regulatory reports are submitted and final determinations are made regarding over or underpayments. Amounts due to third-party payors include monies the Organization received in excess of grant funds for room and board, which is due back to the state of Maryland. The Organization's total amounts due to third-party payors as of June 30, 2023 and 2022, were $7,368,354 and $2,799,833, respectively. Receivables from government agencies represent billings, grant and reimbursements (overpayments) associated with various programs.

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 general expenditures, liabilities and other obligations become due.

Note 9. Liquidity and Availability (Continued)

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

	2023	2022
Cash and cash equivalents	$ 8,433	$ 8,572
Accounts receivable	1,753,177	968,345
Total financial assets available	1,761,610	976,917
Less due to third-party payors	(7,368,354)	(2,799,833)
Financial assets available to meet cash needs for general expenditure within one year	$ (5,606,744)	$ (1,822,916)

The Organization's cash account is a zero-balance account and is swept into the Master Account in the custody of Chimes International. Any cash needs will be first drawn against International's Master Account, and if necessary, the Organization has cash available from the $15,300,000 line of credit it shares with other related parties.

Note 10. Commitments and Contingencies

The State of Maryland 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 the consolidated financial statements.

The Organization acts as an agent on behalf of individuals served regarding the holding of client cash funds. At June 30, 2023 and 2022, the Organization was holding $376,894 and $352,418, respectively, in client funds, which is reflected as an asset and a liability in the consolidated financial statements.

Note 11. Subsequent Events

Effective September 6, 2023, the Organization entered into one operating lease for equipment. The lease has an initial term of one year and provides for a one year renewal option. The lease agreement also provides for annual rent escalations, which are amortized over the life of the respective lease. Future minimum lease payments under this agreement approximate $532,000. The equipment lease also includes minimum monthly service fees for a term of five years which approximate a total of $2,007,000.

RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Directors
The Chimes, Inc.

We have audited the consolidated financial statements of The Chimes, Inc. and Subsidiary (the Organization) as of and for the year ended June 30, 2023, and have issued our report thereon, dated January 29, 2024, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of school expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The schedule of school expenses, except for the budget information on page 22 marked unaudited, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The budget information on page 22 marked unaudited has not been subject to auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion on it. In our opinion, except for the budget information on page 22 marked unaudited, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Baltimore, Maryland
January 29, 2024

The Chimes, Inc. and Subsidiary

Schedule of School Expenses—The Chimes, Inc.
Year Ended June 30, 2023

	The Chimes School	
	Actual	Budget (Unaudited)
Direct costs:		
Salaries:		
School administrative	$ 284,074	$ 220,956
Direct classroom	537,274	1,005,397
Related services	356,224	525,512
General support	767,981	1,213,586
Fringe benefits	219,762	332,607
Payroll taxes	166,267	281,909
Professional fees	438,926	172,848
Supplies and non-capital equipment	93,026	134,855
Phone/fax/internet	12,524	9,876
Postage	220	500
Occupancy	348,174	213,362
Rental/maintenance of equipment	33,854	49,350
Public relations	17,000	500
Publications	-	1,300
Transportation	12,366	12,334
Educational experiences	181,992	49,651
Dues/licenses	26,934	18,088
Depreciation	139,776	127,656
Total direct costs	3,636,374	4,370,287
Indirect costs:		
Salaries:		
Administrative/executive	204,638	188,896
Fridge benefits	34,387	31,742
Payroll taxes	19,756	18,236
Professional fees	50,889	46,974
Supplies and non-capital equipment	1,446	1,335
Postage	1,083	1,000
Occupancy	18,958	17,500
Public relations	1,083	1,000
Total indirect costs	332,240	306,683
Total	$ 3,968,614	$ 4,676,970