

**GORFINE, SCHILLER & GARDYN, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

**CHIMES INTERNATIONAL  
LIMITED AND  
RELATED ENTITIES**

CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
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*June 30, 2011 and 2010*

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Chimes International Limited and Related Entities (the Organization) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended and the related statement of functional expenses for the year ended June 30, 2011. These consolidated financial statements are the responsibility of the management of Chimes International Limited and Related Entities. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The prior year summarized information has been derived from the Organization's June 30, 2010 consolidated financial statements and in our report dated November 15, 2010; we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Gorfine, Schiller & Gardyn, P.A.*

**November 16, 2011  
Owings Mills, Maryland**

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## **CONSOLIDATED FINANCIAL STATEMENTS**

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*June 30, 2011 and 2010*

	<b>2011</b>	<b>2010</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 12,064,027	\$ 10,731,096
Accounts receivable, net of allowance for doubtful accounts	19,201,393	18,425,455
Pledges receivable	248,263	226,982
Prepaid expenses	879,263	793,500
Current portion of loans receivable	85,027	10,027
Investments, current	1,667,747	1,498,931
Due from related party	-	28,495
<b>Total current assets</b>	<b>34,145,720</b>	<b>31,714,486</b>
<b>NONCURRENT ASSETS</b>		
Land, buildings and equipment, net of accumulated depreciation	31,067,266	29,280,787
Intangible assets, net of accumulated amortization	221,635	160,204
Long-term pledges receivable	187,333	-
Loans receivable, net of current portion	347,532	357,559
Investments, long-term	2,851,170	2,545,032
Other noncurrent assets	390,281	387,959
<b>Total noncurrent assets</b>	<b>35,065,217</b>	<b>32,731,541</b>
<b>TOTAL ASSETS</b>	<b>\$ 69,210,937</b>	<b>\$ 64,446,027</b>

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

	<u>2011</u>	<u>2010</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 330,536	\$ 519,328
Short-term borrowings	3,910,615	4,122,687
Accounts payable	3,839,125	4,595,526
Accrued expenses and other liabilities	14,984,288	13,982,505
Deferred revenue and refundable advances	12,203,391	12,106,175
Deferred rent	107,069	115,516
Due to third-party payors	<u>320,082</u>	<u>100,371</u>
<b>Total current liabilities</b>	<u>35,695,106</u>	<u>35,542,108</u>
<b>LONG-TERM DEBT</b>		
Bonds payable	6,980,549	5,157,667
Mortgages and notes payable	1,906,365	2,459,197
Capital lease obligations	<u>33,462</u>	<u>32,256</u>
<b>Total long-term debt, net of current maturities</b>	<u>8,920,376</u>	<u>7,649,120</u>
<b>Total liabilities</b>	<u>44,615,482</u>	<u>43,191,228</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	21,472,766	18,680,724
Board designated	<u>1,941,231</u>	<u>1,552,341</u>
	23,413,997	20,233,065
Temporarily restricted	149,817	134,154
Permanently restricted	<u>1,031,641</u>	<u>887,580</u>
<b>Total net assets</b>	<u>24,595,455</u>	<u>21,254,799</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 69,210,937</u>	 <u>\$ 64,446,027</u>

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
*For the Years Ended June 30, 2011 and 2010*

	<b>2011</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>REVENUE, GAINS AND OTHER SUPPORT</b>				
Mental health services	\$ 23,525,006	\$ -	\$ -	\$ 23,525,006
Developmental disabilities services	69,218,531	-	-	69,218,531
Employment contractual services	69,487,970	-	-	69,487,970
Management fees	384,844	-	-	384,844
Donations and grants	324,175	-	-	324,175
Miscellaneous	457,458	-	-	457,458
Fundraising income	841,462	-	-	841,462
Investment income (loss)	389,602	15,663	144,061	549,326
Gain (loss) on sale of assets	33,557	-	-	33,557
<b>Total revenue, gains and other support</b>	<b>164,662,605</b>	<b>15,663</b>	<b>144,061</b>	<b>164,822,329</b>
<b>EXPENSES</b>				
<b>Program services</b>				
Mental health services	20,337,900	-	-	20,337,900
Developmental disabilities services	57,967,245	-	-	57,967,245
Employment contractual services	62,316,640	-	-	62,316,640
Grants	221,410	-	-	221,410
Total program expenses	140,843,195	-	-	140,843,195
<b>Supporting services</b>				
Administrative expenses	20,392,457	-	-	20,392,457
Fundraising expenses	246,021	-	-	246,021
Total supporting services	20,638,478	-	-	20,638,478
<b>Total expenses</b>	<b>161,481,673</b>	<b>-</b>	<b>-</b>	<b>161,481,673</b>
<b>CHANGES IN NET ASSETS</b>	<b>3,180,932</b>	<b>15,663</b>	<b>144,061</b>	<b>3,340,656</b>
<b>NET ASSETS, Beginning of year</b>	<b>20,233,065</b>	<b>134,154</b>	<b>887,580</b>	<b>21,254,799</b>
<b>NET ASSETS, End of year</b>	<b>\$ 23,413,997</b>	<b>\$ 149,817</b>	<b>\$ 1,031,641</b>	<b>\$ 24,595,455</b>

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

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED**

*For the Years Ended June 30, 2011 and 2010*

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>REVENUE, GAINS AND OTHER SUPPORT</b>				
Mental health services	\$ 22,324,572	\$ -	\$ -	\$ 22,324,572
Developmental disabilities services	66,222,530	-	-	66,222,530
Employment contractual services	64,629,481	-	-	64,629,481
Management fees	394,370	-	-	394,370
Donations and grants	582,480	-	-	582,480
Miscellaneous	1,473,746	-	-	1,473,746
Fundraising income	472,567	-	-	472,567
Investment income (loss)	(60,722)	12,593	48,400	271
Gain (loss) on sale of assets	(3,627)	-	-	(3,627)
<b>Total revenue, gains and other support</b>	<b>156,035,397</b>	<b>12,593</b>	<b>48,400</b>	<b>156,096,390</b>
<b>EXPENSES</b>				
<b>Program services</b>				
Mental health services	19,034,179	-	-	19,034,179
Developmental disabilities services	56,641,914	-	-	56,641,914
Employment contractual services	57,150,447	-	-	57,150,447
Grants	115,473	-	-	115,473
Total program expenses	132,942,013	-	-	132,942,013
<b>Supporting services</b>				
Administrative expenses	19,782,472	-	-	19,782,472
Fundraising expenses	166,871	-	-	166,871
Total supporting services	19,949,343	-	-	19,949,343
<b>Total expenses</b>	<b>152,891,356</b>	<b>-</b>	<b>-</b>	<b>152,891,356</b>
<b>CHANGES IN NET ASSETS</b>	<b>3,144,041</b>	<b>12,593</b>	<b>48,400</b>	<b>3,205,034</b>
<b>NET ASSETS, Beginning of year</b>	<b>17,089,024</b>	<b>121,561</b>	<b>839,180</b>	<b>18,049,765</b>
<b>NET ASSETS, End of year</b>	<b>\$ 20,233,065</b>	<b>\$ 134,154</b>	<b>\$ 887,580</b>	<b>\$ 21,254,799</b>

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

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
*For the Year Ended June 30, 2011 (With Comparative Totals for 2010)*

	2011								2010	
	Programs				Supporting Services				Total Expenses	Total Expenses
	Mental Health Services	Developmental Disabilities Services	Employment Services	Grants	Total Program Services	Administrative Expenses	Fundraising	Total Supporting Services		
Salaries and benefits	\$ 14,652,372	\$ 44,216,497	\$ 47,369,078	\$ -	\$ 106,237,947	\$ 12,479,953	\$ -	\$ 12,479,953	\$ 118,717,900	\$ 113,519,670
Consulting and contractual	690,223	385,782	25,321	-	1,101,326	1,520,382	-	1,520,382	2,621,708	2,143,520
Office and administrative	1,744,719	635,063	2,418,603	-	4,798,385	3,374,543	36,863	3,411,406	8,209,791	7,849,326
Vehicles, transport and travel	73,282	3,229,908	461,850	-	3,765,040	262,726	-	262,726	4,027,766	3,594,768
Facilities	2,511,548	5,912,130	632,700	-	9,056,378	1,923,562	-	1,923,562	10,979,940	10,818,833
Janitorial sub-contracts	-	-	6,964,805	-	6,964,805	14,018	-	14,018	6,978,823	5,673,739
Fundraising expenses	-	-	-	-	-	-	209,158	209,158	209,158	164,261
Grant and other distributions	-	-	-	221,410	221,410	-	-	-	221,410	115,473
Training supplies, equipment and personal supplies	566,124	3,503,259	3,895,084	-	7,964,467	447,514	-	447,514	8,411,981	7,902,186
Depreciation and amortization	99,632	1,376,203	549,199	-	2,025,034	870,930	-	870,930	2,895,964	2,702,476
Management fees	-	-	-	-	-	8,491,590	-	8,491,590	8,491,590	8,147,903
<b>Total before eliminations</b>	<b>20,337,900</b>	<b>59,258,842</b>	<b>62,316,640</b>	<b>221,410</b>	<b>142,134,792</b>	<b>29,385,218</b>	<b>246,021</b>	<b>29,631,239</b>	<b>171,766,031</b>	<b>162,632,155</b>
Eliminations	-	(1,291,597)	-	-	(1,291,597)	(8,992,761)	-	(8,992,761)	(10,284,358)	(9,740,799)
<b>TOTAL</b>	<b>\$ 20,337,900</b>	<b>\$ 57,967,245</b>	<b>\$ 62,316,640</b>	<b>\$ 221,410</b>	<b>\$ 140,843,195</b>	<b>\$ 20,392,457</b>	<b>\$ 246,021</b>	<b>\$ 20,638,478</b>	<b>\$ 161,481,673</b>	<b>\$ 152,891,356</b>

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

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*For the Years Ended June 30, 2011 and June 30, 2010*

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 3,340,656	\$ 3,205,034
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	2,881,440	2,690,104
Amortization	14,524	12,372
Provision for bad debts	758,342	620,734
Unrealized (gain) loss on investments	(300,083)	126,590
(Gain) loss on sale of land, buildings and equipment	(33,557)	3,627
Changes in operating assets and liabilities:		
Accounts receivable	(1,534,280)	1,992,987
Pledges receivable	(208,614)	392,946
Prepaid expenses	(85,763)	105,967
Due to third-party payors	219,711	(976,756)
Other noncurrent assets	(2,322)	30,795
Accounts payable	(756,401)	237,433
Accrued expenses and other liabilities	1,001,783	1,963,931
Deferred rent	(8,447)	(5,939)
Deferred revenue and refundable advances	97,216	655,105
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>5,384,205</b>	<b>11,054,930</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(1,389,023)	(2,038,628)
Disbursement for loans receivable	(175,000)	(530,000)
Acquisition of bond issue costs	(75,955)	-
Loans receivable collected	110,027	162,414
Acquisition of land, buildings and equipment	(4,624,036)	(3,621,196)
Proceeds from sales of land, buildings and equipment	53,225	4,500
Proceeds from sales of investments	1,214,152	797,823
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(4,886,610)</b>	<b>(5,225,087)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payments on bonds	(209,053)	(102,678)
Payments on capital lease obligations	(313,615)	(298,276)
Payments on mortgages and notes	(67,223)	(144,318)
Proceeds from bonds	55,271	-
Borrowings (Payments) on short-term borrowings, net	1,341,461	(892,900)
Due to (from) related party, net	28,495	-
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>835,336</b>	<b>(1,438,172)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,332,931</b>	<b>4,391,671</b>
<b>CASH AND CASH EQUIVALENTS, including restricted cash, Beginning of year</b>	<b>10,731,096</b>	<b>6,339,425</b>
<b>CASH AND CASH EQUIVALENTS, including restricted cash, End of year</b>	<b>\$ 12,064,027</b>	<b>\$ 10,731,096</b>

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

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*June 30, 2011 and 2010*

**NOTE A – NATURE OF OPERATIONS**

Chimes International Limited and Related Entities (the Organization) provide services to people living in the States of Maryland, Delaware, Pennsylvania, Virginia, New Jersey, North Carolina and the District of Columbia. The Organization provides mental health services, drug and substance abuse services and intellectual/developmental disabilities services. Its employment services programs may also serve people with other disabilities and barriers to independent living.

Services provided to persons within the Organization’s target populations include employment services and supports, day habilitation, counseling, educational supports and instruction, supported living services and a variety of living and housing alternatives. The Organization also provides administrative services to other organizations with common interests and needs.

During 2005, the Board of Directors and management of the Organization undertook a reorganization to align corporate structure more closely with actual operations. Chimes International Limited became the parent of all related corporations. The Chimes, Inc., the founding organization and operating program in Maryland, transferred its sole membership in the subsidiaries to the new parent, Chimes International Limited, a supporting organization recognized as a 501(c)(3) not-for-profit corporation by the Internal Revenue Service (IRS).

On March 7, 2009, Developmental Services of New Jersey, Inc. ceased all operations. On that day all the group homes, day program and administrative office were closed permanently.

The following is a summary of entities related to the Organization, which are included in the consolidated financial statements.

<u>Entity Name</u>	<u>Nature of Relationship</u>
Chimes International Limited (International)	Parent, Board drawn from membership of supported organizations
The Chimes, Inc. (Chimes – Maryland)	International has sole membership
Chimes Metro, Inc. (Chimes – Delaware)	International has sole membership
Chimes District of Columbia, Inc. (Chimes – DC)	Common management
Chimes Virginia, Inc. (Chimes – VA)	International has sole membership
Chimes Foundation, Incorporated (Foundation)	Common management
Holcomb Associates, Inc. (Holcomb)	International has sole membership
Open Door, Inc. (Open Door)	Holcomb has sole membership
Family Services Association, Inc. (Family Services)	Holcomb has sole membership
Developmental Services of New Jersey, Inc. (DSNJ)	International has sole membership
Chimes Pennsylvania, Inc. (Chimes – PA)	Holcomb has sole membership

## **NOTE A – NATURE OF OPERATIONS – Continued**

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

Chimes Israel is an independent Israeli organization, which is not incorporated in the United States, some of whose directors are also members of the Board of Directors of one or more of the other related entities. Chimes Israel is not included in the consolidated financial statements.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **1. Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **2. Financial Statement Presentation**

The Organization complies with Financial Accounting Standards Board Accounting Standards Codification (ASC). Under ASC, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

The determination of a net asset class is established by the existence or absence of legally enforceable restrictions from outside of the Organization and its Board of Directors. If no outside restrictions exist, then net assets are recorded as unrestricted.

### **3. Donated Services**

No amounts are recorded for donated personal services in these consolidated financial statements since the services do not meet the criteria requiring consolidated financial statement disclosure under accounting principles generally accepted in the United States. Volunteers have donated significant amounts of their time to the Organization; however, the value of these services cannot be estimated.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **4. Net Assets**

Unrestricted net assets consist of funds free of any legally enforceable restrictions outside of the Organization and its Board of Directors. Temporarily and permanently restricted net assets consist of funds subject to donor restrictions from outside the Organization and its Board of Directors. The Organization reports contributions of cash and other assets as donor restricted support if they are received with donor stipulations that limit the time period or manner of use of the contribution. However, if a donor restriction expires in the same reporting period the contribution is made, the contribution is recorded as an increase in unrestricted net assets as allowed by ASC. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

### **5. Support and Revenue**

Some revenues are received as grant funds and third-party claims from the State of Maryland or municipalities in Maryland, as well as from the States of Delaware, Pennsylvania, Virginia, New Jersey and the District of Columbia. Such revenues are recognized when the related services are rendered. Unexpended funds may be due back to the funding authorities, unless the funding authority allows the Organization to retain such excess. Other revenues are earned under fee for service arrangements.

The concentration of revenue from the Mid-Atlantic area is not expected to have any significant future effect on the Organization.

### **6. Cash and Cash Equivalents**

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Included in cash and cash equivalents on the balance sheet is restricted cash of \$121,702 and \$77,054 pertaining to the permanently restricted net assets (See Note N) as of June 30, 2011 and 2010, respectively.

Periodically during the year, cash and cash equivalents in interest bearing accounts may have exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limitation. The Organization does not believe that it is exposed to any significant risk in such deposits.

### **7. Accounts Receivable**

Most of the accounts receivable are due from the Federal government, State or other municipalities in Maryland, Delaware, Pennsylvania, Virginia, New Jersey or the District of Columbia. Based upon a review of the receivables as of June 30, 2011 and 2010, management recorded an allowance for doubtful accounts of \$992,561 and \$774,484, respectively.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **8. Pledges Receivable**

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Foundation is the recipient of unconditional pledges receivable at June 30, 2011, which are expected to be received as follows:

Receivable in less than 1 year	\$ 248,263
Receivable in 1 to 5 years	<u>187,333</u>
Total unconditional pledges receivable	<u>\$ 435,596</u>

Management anticipates that all unconditional pledges are collectible. Accordingly, no allowance for uncollectible pledges has been established. Management determined the discounts to net present value were immaterial and hence not recorded.

### **9. Land, Buildings and Equipment**

Capital assets are stated at cost or, if donated, at fair market value on the date of donation. It is the Organization's policy to record as unrestricted net assets all donated property and equipment whose only restrictions are the depreciable lives of the property. The Organization's capitalization policy is \$1,000, except where regulation requires a different amount. Depreciation is provided over the following estimated useful lives of the related assets using the straight-line method.

Buildings and improvements	15 - 40 years
Land improvements	15 years
Automobiles	3 - 5 years
Furnishings and equipment	3 - 5 years
Leasehold improvements	life of lease

Although the Organization holds title to all of its assets, in the event of its dissolution, all assets acquired under capital grant programs may revert to the governmental entity under their respective funding agreements or to another 501(c)(3) corporation providing similar services as the Organization.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **10. Investments and Investment Income**

The Organization accounts for certain investments in equity securities (i.e., investments that have readily determinable fair values and are not accounted for by the equity method) and all investments in debt securities at fair value in the consolidated statements of financial position. Gains and losses on investments resulting from their measurement at fair value are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by donor stipulation or by law.

Investment income earned is used to support the ongoing operations of the Organization and is classified as revenue.

### **11. Loans Receivable**

Loans receivable are reported at their outstanding principal balance. Loans receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination, management evaluated the financial condition of the borrowers, the estimated value of the underlying collateral and current economic conditions.

### **12. Intangible Assets**

Intangible assets consist of bond issuance costs. Bond issuance costs related to the financing described in Note I are amortized on a straight-line basis over the life of the related bonds.

### **13. Income Tax**

The Organization's entities are exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code and are not considered private foundations. None of the Organizations' activities, with the exception of International, (See Note U) are subject to the tax on unrelated business income.

The Organization adopted ASC, *Accounting for Income Taxes*, on July 1, 2009. 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. Tax years ending June 30, 2008 and after are still open.

### **14. Deferred Revenue and Refundable Advances**

Revenue is recognized as earned. Amounts billed in advance of the period in which the service is rendered are recorded as a liability under deferred revenue.

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

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **15. Advertising**

Advertising costs are charged to operations when incurred. The Organization had no significant direct-response advertising. Management has determined that advertising expense for the years ended June 30, 2011 and 2010 was not material.

### **16. Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 16, 2011, the date the consolidated financial statements were available to be issued. During this period, the Organization did not have any material recognizable subsequent events.

### **17. Reclassifications**

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

## **NOTE C – LAND, BUILDINGS AND EQUIPMENT**

Major classes of land, buildings and equipment at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 3,602,284	\$ 3,311,467
Buildings and improvements	32,203,793	30,602,802
Land improvements	246,975	246,975
Automobiles	3,952,219	3,184,585
Furnishings and equipment	17,419,557	16,512,833
Leasehold improvements	1,929,235	1,823,078
Construction in progress	<u>401,428</u>	<u>-</u>
Total land, buildings and equipment	59,755,491	55,681,740
Less: accumulated depreciation	<u>28,688,225</u>	<u>26,400,953</u>
Net land, buildings and equipment	<u>\$ 31,067,266</u>	<u>\$ 29,280,787</u>

Depreciation on these assets for the years ended June 30, 2011 and 2010 was \$2,881,440 and \$2,690,104, respectively.

## NOTE D – INVESTMENTS

Investments included in the Organization’s consolidated statements of financial position at June 30, 2011 and 2010 are as follows:

	2011		2010	
	Cost	Market Value	Cost	Market Value
Bonds	\$ 873,312	\$ 894,478	\$ 894,634	\$ 907,512
Common stocks	1,008,523	1,173,607	944,493	995,330
Mutual funds	398,404	509,601	346,876	406,615
Cash surrender value, life insurance	2,400,000	1,941,231	2,341,841	1,734,506
	<u>\$ 4,680,239</u>	<u>\$ 4,518,917</u>	<u>\$ 4,527,844</u>	<u>\$ 4,043,963</u>

As described in Note N, included in the above investments are permanently restricted investments in the amount of \$909,939 and \$810,526 as of June 30, 2011 and 2010, respectively.

The following schedule summarizes the investment income and its classification in the consolidated statements of activities for the years ended June 30, 2011 and 2010:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 96,637	\$ 5,220	\$ 11,222	\$ 113,079
Gains (losses) - net	292,965	10,443	132,839	436,247
	<u>\$ 389,602</u>	<u>\$ 15,663</u>	<u>\$ 144,061</u>	<u>\$ 549,326</u>
	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 74,899	\$ -	\$ 10,528	\$ 85,427
Gains (losses) - net	(135,621)	12,593	37,872	(85,156)
	<u>\$ (60,722)</u>	<u>\$ 12,593</u>	<u>\$ 48,400</u>	<u>\$ 271</u>

### Endowment Investment and Spending Policies

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

## **NOTE D – INVESTMENTS – Continued**

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of amounts sufficient to fund the activities to which the gifts relate, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average annual rate of return in excess of the S&P 500 Index for equity securities, and the Barclays Intermediate Bond Fund for fixed income investments. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

## **NOTE D – INVESTMENTS – Continued**

Changes in donor restricted endowment net assets were as follows as of June 30:

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment, beginning of year	\$ 215,564	\$ -	\$ 887,580	\$ 1,103,144
Investment income	<u>18,588</u>	<u>-</u>	<u>144,061</u>	<u>162,649</u>
Endowment, end of year	<u>\$ 234,152</u>	<u>\$ -</u>	<u>\$ 1,031,641</u>	<u>\$ 1,265,793</u>

## **NOTE E – FAIR VALUE MEASUREMENTS**

ASC establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

## **NOTE E – FAIR VALUE MEASUREMENTS – Continued**

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2011 and 2010.

*Common Stocks:* Valued at the closing price reported on the active market in which the individual securities are traded.

*Mutual funds:* Valued at the closing price reported on the active market in which the individual securities are traded.

*Corporate bonds:* Bonds relate to treasury curve and the spread off the treasury curve and the prices were not readily observable but instead mathematical calculations were used to obtain the final calculation.

*Cash surrender value, life insurance:* Valued at the amount that could be realized under the insurance contract at the balance sheet date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table is set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of:

	<b><u>June 30, 2011</u></b>			
	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Common stocks	\$ 1,173,607	\$ -	\$ -	\$ 1,173,607
Mutual funds				
Moderate allocation fund	158,423	-	-	158,423
Large blend fund	351,178	-	-	351,178
Total mutual funds	509,601	-	-	509,601
Bonds				
A1	-	11,605	-	11,605
B+	-	73,274	-	73,274
B-	-	76,140	-	76,140
B1	-	291,581	-	291,581
Ba1	-	128,395	-	128,395
Ba2	-	97,001	-	97,001
Baa3	-	70,512	-	70,512
BB+	-	74,690	-	74,690
Convertible bonds	-	71,280	-	71,280
Total bonds	-	894,478	-	894,478
Cash surrender value, life insurance	-	1,941,231	-	1,941,231
Total assets at fair value	\$ 1,683,208	\$ 2,835,709	\$ -	\$ 4,518,917

**NOTE E – FAIR VALUE MEASUREMENTS – Continued****June 30, 2010**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 995,330	\$ -	\$ -	\$ 995,330
Mutual funds				
Moderate allocation fund	127,560	-	-	127,560
Large blend fund	279,055	-	-	279,055
Total mutual funds	406,615	-	-	406,615
Bonds				
B1	-	66,300	-	66,300
B3	-	134,165	-	134,165
Ba2	-	200,070	-	200,070
Ba3	-	82,308	-	82,308
Baa2	-	70,719	-	70,719
Baa3	-	33,396	-	33,396
BB-	-	36,604	-	36,604
CAA3	-	64,756	-	64,756
Convertible bonds	-	219,194	-	219,194
Total bonds	-	907,512	-	907,512
Cash surrender value, life insurance	-	1,734,506	-	1,734,506
Total assets at fair value	\$ 1,401,945	\$ 2,642,018	\$ -	\$ 4,043,963

**NOTE F – INTANGIBLE ASSETS**

Intangible assets at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Bond issue costs	\$ 261,455	\$ 185,500
Less: accumulated amortization	39,820	25,296
Net intangible assets	\$ 221,635	\$ 160,204

Amortization expense was \$14,524 and \$12,372 for the years ended June 30, 2011 and 2010, respectively.

## **NOTE G – LOANS RECEIVABLE**

Loans receivable at June 30, are as follows:	<u>2011</u>	<u>2010</u>
Loan receivable from an unrelated charitable organization with a common purpose, secured by a deed of trust on real property, to be repaid by monthly payments of \$2,651, beginning April 2010, original loan amount of \$370,000. Loan receivable assumes a 6.0% interest rate over a 60 month term, with a balloon payment of \$316,780 due on March 23, 2015.	\$ 357,559	\$ 367,586
Loan receivable from closely held corporation (see Note U).	<u>75,000</u>	<u>-</u>
Total	432,559	367,586
Less: current portion	<u>85,027</u>	<u>10,027</u>
	<u>\$ 347,532</u>	<u>\$ 357,559</u>

## **NOTE H – SHORT-TERM BORROWINGS**

International has a \$7,500,000 revolving credit note (loan) with PNC Bank (PNC) due on demand. On January 31, 2008 the loan limit was increased to \$10,000,000 through the reversion date. The reversion date was defined as the earlier to occur of (i) November 30, 2008, or the date of issuance of variable rate demand bonds by the Maryland Health and Higher Educational Facility Authority to finance certain facilities of the Organization and refinance the outstanding principal of the three outstanding bonds (See Note I). The loan requires the Organization to comply with several covenants. The loan is collateralized by most properties of Chimes – Maryland, is cross-collateralized and cross-defaulted with all other loans to the borrower and related entities and bears interest at the prime rate (3.25% for each of the years ending June 30, 2011 and 2010). The line of credit expires January 31, 2012. There were no outstanding borrowings at June 30, 2011 and 2010.

Chimes – DC has a \$10,000,000 revolving credit note (loan) with PNC, due on demand. The loan is collateralized by a first lien on certain accounts receivable, and is cross-collateralized and cross-defaulted with all other loans to the borrower and related entities. The loan bears interest at the prime rate (3.25% for each of the years ending June 30, 2011 and 2010). The line of credit expires January 31, 2012. The outstanding balance at June 30, 2011 and 2010 was \$3,910,615 and \$3,497,687, respectively.

Holcomb has a \$1,250,000 working capital line of credit (working capital line) with 1N Bank (formerly First National Bank of Chester County) collateralized by business assets bearing interest at 1N Bank's prime rate minus .50%, but not to be less than 4.25% (4.25% as of June 30, 2011 and 2010). The outstanding balance at June 30, 2011 and 2010 was \$-0- and \$625,000, respectively. Subsequent to year end, Holcomb renewed this line of credit and increased the line of credit to \$1,500,000. The interest rate was lowered to a floor rate of 4.00%.

## **NOTE H – SHORT-TERM BORROWINGS – Continued**

Holcomb also has a \$500,000 real estate purchasing agent line of credit (real estate line) with 1N Bank bearing interest at 1N Bank's prime rate minus .50%, but not to be less than 4.25% (4.25% as of June 30, 2011 and 2010). The real estate line is collateralized by four properties, three of which are being held as mortgages by 1N Bank (See Note J) and one that is directly owned by the Organization. The real estate line expires on February 28, 2012. There were no outstanding borrowings as of June 30, 2011 and 2010.

Open Door has a \$50,000 bank line of credit with Bank of Wilmington (Wilmington) collateralized by business assets. The floating annual rate of interest was 5% for each of the years ending June 30, 2011 and 2010. There were no outstanding borrowings as of June 30, 2011 and 2010. During the current year, as a result of M&T Bank acquiring Wilmington, Open Door decided not to continue the line of credit.

Family Services has a \$25,000 revolving line of credit with PNC collateralized by business assets bearing interest at PNC's prime rate plus 1% (4.25% for each of the years ending June 30, 2011 and 2010). There were no outstanding borrowings as of June 30, 2011 and 2010.

## **NOTE I – BONDS PAYABLE**

### Maryland Health and Higher Educational Facilities Authority – 2008 Series

On October 27, 2008 Maryland Health and Higher Educational Facilities Authority (MHHEFA) issued \$5,610,000 revenue bonds (Series 2008) to Chimes- Maryland. The purpose of the bonds are to finance and refinance a portion of the costs of the acquisition, construction, renovation and equipping of Chimes School (the School) (a non-collegiate educational facility) and to pay off three outstanding bonds. The payment of the bonds are secured by an irrevocable, transferable letter of credit from PNC, which expires October 31, 2013. The bonds mature July 1, 2033 and bear interest at 3.25%. The bonds payable balance as of June 30, 2011 and 2010 was \$5,118,333 and \$5,292,667, respectively.

### Delaware Economic Development Authority Revenue Bonds – Series 2010

On December 29, 2010 the Delaware Economic Development Authority (DEDA) issued \$2,500,000 revenue bonds (Series 2010) to Chimes – Delaware. The purpose of the bonds are to refinance seven homes purchased on the line of credit from a related party and to refinance two homes that were financed with Wilmington Trust (see Note J). In addition, proceeds were used to purchase land and will be used to construct a new barrier free home in Delaware. The payment of the bonds are secured by first lien mortgages and security interests for ten properties. The bonds require the Organization to have audited consolidated financial statements due no more than 120 days after year end, but this requirement has been waived for the year ending June 30, 2011. The bonds also require the Organization to comply with several other covenants. The bonds mature December 29, 2020, and bear interest at the greater of 67% of the Federal Home Loan Board Rate plus 365 basis points or 4%. The bonds payable balance as of June 30, 2011 was \$2,073,281.

**NOTE I – BONDS PAYABLE – Continued**

Principal payable maturities of the bonds for the next five years and thereafter as of June 30, 2011 are as follows:

Years ending June 30, 2012	\$	211,065
2013		219,230
2014		232,297
2015		240,491
2016		253,593
Thereafter		<u>6,034,938</u>
		7,191,614
Less: current maturities		<u>211,065</u>
	\$	<u><u>6,980,549</u></u>

Interest expense related to lines of credit, bonds payable, mortgages and notes payable and capital leases included in the consolidated statements of activities for the years ended June 30, 2011 and 2010 was \$510,119 and \$687,964, respectively.

**NOTE J – MORTGAGES AND NOTES PAYABLE**

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

	<u>2011</u>	<u>2010</u>
Mortgage payable to bank, payable until February 2015, monthly installments of \$469 including interest at 7.75%, collateralized by a building.	\$ 17,903	\$ 21,967
Mortgage payable to a bank dated March 1, 1999, collateralized by the property at 290 Kirk Lane, Media, Pennsylvania. The loan is for a term of 300 months with a variable interest rate based on the bank's base lending rate. Currently, the monthly payment of principal and interest is \$1,120, with interest at 4.35% per annum.	118,265	125,061
Mortgage payable to a bank dated May 12, 1999, collateralized by the property at 1053 Glenn Hall Road, Kennett Square, Pennsylvania. The loan is for a term of 300 months with interest at 5.48% per annum and is subject to adjustment every 60 months to the average five-year U.S. Treasury constant maturities yield in effect 30 days prior to the adjustment date. The rate at June 30, 2011 was 4.23%. Currently, the monthly payment of principal and interest is \$1,973.	\$ 237,809	\$ 250,977

**NOTE J – MORTGAGES AND NOTES PAYABLE – Continued**

	<u>2011</u>	<u>2010</u>
Mortgage payable to a bank dated August 26, 1999, collateralized by the property at 515 Cherry Tree Road, Aston, Pennsylvania. The loan is for a term of 300 months with a variable interest rate of 5.875% at June 30, 2011. Currently, the monthly payment of principal and interest is \$1,464.	\$ 159,546	\$ 168,069
Mortgage payable to a bank dated August 3, 2010 collateralized by the property at 920 Baltimore Avenue, Kennett Square, Pennsylvania. This loan refinanced the loan dated May 22, 2009 with a term of 300 months and an interest rate of 5.75% with monthly payments of principal and interest in the amount of \$7,103. The new loan is for a term of 292 months with an interest rate of 4.5%. Currently, the monthly payment of principal and interest is \$6,287 with the note maturing November 1, 2034. The Organization has to comply with certain covenants.	1,084,205	1,099,505
Mortgage payable to a bank dated June 22, 2000, collateralized by the property at 115 Burmont Road, Drexel Hill, Pennsylvania. The loan is for a term of 300 months with a variable interest rate of 2.0% above the five-year U.S. Treasury constant maturities rate. Currently, the monthly payment of principal and interest is \$1,078, with interest at the current rate of 4.125% per annum.	137,425	144,533
Mortgage payable to a bank dated October 22, 1999 collateralized by the property at 718 North Bridge Street, Elkton, Maryland. The loan term is 360 months with the interest rate adjusted every five years, with the rate adjustment limited to 2% up or down. Currently, the monthly payment of principal and interest is \$1,761, with interest at a current rate of 6.75%. The next rate reset is October 29, 2014.	\$ 217,858	\$ 224,237

**NOTE J – MORTGAGES AND NOTES PAYABLE – Continued**

	<u>2011</u>	<u>2010</u>
Mortgage payable to Wilmington Trust Company (currently M&T Bank) dated March 29, 2007, collateralized by the properties at 5 Wollaston Road, Wilmington, Delaware and 10 Cordele Road, Newark, Delaware. Monthly payments of \$4,619 are due over 60 months, with a balloon payment of \$483,140 due on April 1, 2012, including interest at 8.05% per annum. The mortgage was guaranteed by International. This mortgage was paid off in conjunction with the DEDA bonds (see Note I).	\$ -	\$ 505,081
Total	\$ 1,973,011	\$ 2,539,430
Less: current maturities	<u>66,646</u>	<u>80,233</u>
	<u>\$ 1,906,365</u>	<u>\$ 2,459,197</u>

Payments of principal during the next five years and thereafter as of June 30, 2011, are as follows:

Years ending June 30, 2012	\$ 66,646
2013	194,102
2014	371,697
2015	173,464
2016	39,126
Thereafter	<u>1,127,976</u>
	<u>\$ 1,973,011</u>

**NOTE K – CAPITAL LEASE OBLIGATIONS**

The Organization has capitalized leases for furnishings and equipment included in land, buildings and equipment as follows:

	<u>2011</u>	<u>2010</u>
Furnishings and equipment	\$ 393,259	\$ 851,741
Less: accumulated depreciation	<u>259,184</u>	<u>388,530</u>
Net furnishings and equipment	<u>\$ 134,075</u>	<u>\$ 463,211</u>

**NOTE K – CAPITAL LEASE OBLIGATIONS – Continued**

Future minimum lease payments and the present value of such payments under capitalized obligations at June 30, 2011 are:

Years ending June 30, 2012	\$ 56,578
2013	23,473
2014	<u>11,737</u>
	91,788
Less: amount representing interest	<u>5,501</u>
Present value of capital lease obligations at June 30, 2011	86,287
Less: current maturities	<u>52,825</u>
Long-term portion of present value of capital lease obligations at June 30, 2011	<u>\$ 33,462</u>

**NOTE L – BOARD DESIGNATED NET ASSETS**

The Board of Directors designated \$1,941,231 and \$1,552,341 at June 30, 2011 and 2010, respectively, of unrestricted net assets that the Organization set aside for the Foundation to invest.

**NOTE M – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2011 and 2010, was available for the following purposes:

	<u>2011</u>	<u>2010</u>
Tina Hyatt Fund	<u>\$ 149,817</u>	<u>\$ 134,154</u>

**NOTE N – PERMANENTLY RESTRICTED NET ASSETS**

In 1995, the Foundation received \$100,000 from The Harry and Jeanette Weinberg Foundation, Incorporated (Weinberg Foundation) to establish an endowment fund called The Harry and Jeanette Weinberg Futures Fund (Weinberg Futures Fund), with \$200,000 in matching funds raised by the Foundation. In 1996, the Foundation received an additional \$100,000 from the Weinberg Foundation with \$200,000 in matching funds raised by the Foundation to contribute further to the Weinberg Futures Fund.

In 1999, the Foundation received an additional \$150,000 from the Weinberg Foundation with \$150,000 in matching funds raised by the Foundation to contribute further to the Weinberg Futures Fund. For years after 1999 no additional receipts were received from the Weinberg Foundation and no matching funds were raised. The Weinberg Futures Fund's purpose is to provide services to individuals who require financial assistance to participate in the programs that the Foundation supports. Although informally identified, management has not formally named an account or investment in the name of the Weinberg Futures Fund.

## **NOTE N – PERMANENTLY RESTRICTED NET ASSETS – Continued**

The endowment agreement requires that 30% of the dividend and interest investment income and all realized or unrealized gains and losses generated by those funds be retained to maintain and increase purchasing power for future distributions. As of June 30, 2011 and 2010, the Foundation had segregated those earnings and added them to the informally identified investment. The endowment fund (permanently restricted net assets) amounted to \$1,031,641 and \$887,580 as of June 30, 2011 and 2010, respectively.

## **NOTE O – RETIREMENT PLANS**

Chimes – Maryland has established a Money Purchase Pension Plan covering substantially all employees. Chimes – Maryland, Chimes – Delaware, Chimes – VA, International and DSNJ are included in this plan. Wells Fargo is Custodian and Trustee of the plan. The Organization contributed 2.5% of the annual salaries of qualified participants. This plan was frozen on December 31, 2008, no more contributions are being made. The 2.5% contributions are being made into the 403(b) Plan (see below). On May 2, 2011 this plan was merged into the 401(a) plan (see below).

In 1994, Chimes – Maryland (assigned to International effective July 1, 2004) established a nonqualified severance plan for certain administrative employees. Discretionary contributions are to be made to the plan on an annual basis. Contribution expense for the years ended June 30, 2011 and 2010 was \$134,250 and \$212,786, respectively. Contributions are paid into a separate restricted trust account for the plan with investments subject to the discretion of the qualified participants. The maximum aggregated benefits are limited by the terms of the agreement.

On July 1, 1998, Chimes – Maryland established a 401(k) plan covering substantially all employees. Subsequently, the plans operations were assumed by International on behalf of its related subsidiaries, Chimes – Maryland, Chimes – Delaware, Chimes – VA, and DSNJ. Effective July 1, 2004, participation in this plan was limited to individuals earning less than \$80,000. Since that time, the ceiling has been adjusted. For the year ending June 30, 2009, the ceiling was \$100,000. The Organization matched employee contributions up to 3% of the annual salaries of qualified participants. This plan was frozen on December 31, 2008, no more contributions are being made. The 3% match contributions are being made into the 403(b) Plan (see below). On May 2, 2011 this plan was amended, restated and renamed The Chimes, Inc. 401(a) defined contribution plan.

Effective January 1, 2000, Holcomb adopted the “Holcomb Associates, Inc. 403(b) Plan” which matches employee contributions at 50% up to 6% of annual salary, with 100% vesting after five years of participation. Contributions for the years ended June 30, 2011 and 2010 were \$83,020 and \$82,037, respectively.

## **NOTE O – RETIREMENT PLANS – Continued**

In 2001, Chimes – Maryland (assigned to International effective July 1, 2004) established a severance benefit for certain administrative employees, equal to one months base salary per year of employment for the Chief Executive Officer, up to a maximum of 24 months salary, and two weeks base salary per year of employment for the other administrative employees eligible for the benefit, up to a maximum of 52 weeks salary. In 2003, the severance plan was modified and expanded into a supplemental retirement benefit and, in the case of the Chief Executive Officer, termination for cause. In 2005, the severance plan was modified to clarify certain vesting provisions. The benefit is unfunded, and subject to complete forfeiture by the employee in the event that he shall voluntarily resign, or be terminated for cause, from the Organization prior to the date on which the employee becomes eligible for retirement. The benefit was modified to pay one months total cash compensation, or two weeks total cash compensation, for each year of employment, in lieu of one months base salary or two weeks base salary, where “total cash compensation” is defined as (i) the employee’s highest annual rate of salary during his term of employment, plus (ii) the employee’s highest annual incentive bonus paid during his term of employment, all divided by 12 (to determine one months total cash compensation) or divided by 52 (to determine one weeks total cash compensation). In addition, the benefit for the Chief Operating Officer was revised to be equal to one months total cash compensation per year of employment, up to a maximum of 12 months total cash compensation. As of June 30, 2011 and 2010, the maximum aggregate commitment is \$300,000 and \$206,888, respectively. As of June 30, 2011 and 2010, the Organization has recorded a liability of \$300,000 and \$187,604, respectively in these consolidated financial statements representing the present value of the future obligation for retirement benefits.

Effective July 1, 2004, Chimes – Maryland established a 403(b) plan covering substantially all employees earning \$80,000 or more. Since inception, the plan floor has periodically increased. For the year ending June 30, 2009, the plan floor was \$100,000. Chimes – Maryland, Chimes – Delaware, Chimes – VA, International, and DSNJ all participate in this plan.

This plan was restated on January 1, 2009. All qualified participants of the 401(k) and Money Purchase Pension Plan became participants in the 403(b) Plan, and the plan floor was removed. The Organization contributes 2.5% of the annual salaries of qualifying participants. The Organization also matches employee contributions up to 3% of the annual salaries of qualifying participants. The 403(b) contribution expense for the years ended June 30, 2011 and 2010, was \$936,731 and \$1,073,178, respectively.

Effective January 1, 2006, Chimes – DC participates in a 401(a) defined contribution retirement plan. Under the plan, participation is limited to certain administrative personnel with a contribution equaling 2% of the covered employees’ salary. Contributions to the 401(a) Plan for the years ended June 30, 2011 and 2010 were \$44,935 and 44,755, respectively

Effective January 1, 2006, Chimes – DC established a 403(b) plan that is only a deferral and is open to all employees of Chimes – DC. There were no employer contributions to this plan.

## **NOTE P – DEFERRED RENT**

Holcomb’s lease agreement for its administrative office has a provision for rent payments with fixed annual increases. In accordance with generally accepted accounting principles, the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for consolidated financial statement purposes is recorded as deferred rent.

## **NOTE P – DEFERRED RENT – Continued**

Future amortization of deferred rent over the next five years and thereafter are as follows:

Years ending June 30, 2012	\$ (12,748)
2013	(14,540)
2014	(17,048)
2015	(23,858)
2016	(27,441)
Thereafter	<u>(11,434)</u>
	<u>\$ (107,069)</u>

## **NOTE Q – COMMITMENTS AND CONTINGENCIES**

The States of Maryland, Delaware, Pennsylvania, and Virginia, the District of Columbia and the Federal government retain the right to conduct audits of the Organization's programs funded by State grants, other State resources and Federal programs. Audit adjustments are reflected in the period incurred. Management of the Organization is unaware of any material potential liability or receivable that might arise as a result of such an audit, other than amounts already reflected in these consolidated financial statements.

Chimes – DC has agreed to pay a fee to the National Institute for the Severely Handicapped (NISH) as compensation for procuring Federal government contracts for Chimes – DC in the amount of 4% of cash received for services from those contracts. NISH fees paid for the years ended June 30, 2011 and 2010 totaled \$1,633,583 and \$1,475,093, respectively.

The Organization leases numerous residences and buildings for its clients and administration that are treated as operating leases. The future minimum lease payments as of June 30, 2011 are as follows:

Years ending June 30, 2012	\$ 2,942,698
2013	1,343,740
2014	919,507
2015	768,385
2016	590,544
Thereafter	1,380,779

Rent expense included in facilities expense on the statements of functional expenses for the years ended June 30, 2011 and 2010 was \$3,717,650 and \$3,489,705, respectively.

There are multi-year employment commitments to some key employees. Maximum terms of the commitments are five years at normal salary and benefit levels, with no monies due if the employees are terminated for cause, except for the Chief Executive Officer for which there is no for cause provision.

The Organization acts as an agent on behalf of individuals served regarding the holding of client cash funds. At June 30, 2011 and 2010, the Organization was holding \$679,200 and \$734,920, respectively, in client funds, which have not been reflected in these consolidated financial statements.

## **NOTE Q – COMMITMENTS AND CONTINGENCIES – Continued**

### **Legal Contingencies:**

An action was brought about by a subcontractor of Chimes – DC alleging that Chimes – DC owed them \$2.4 million dollars for work resulting from flood damage performed on a government building. Trial in this case took place on February 9-14, 2009. On February 17, 2009, the Circuit Court for Montgomery County issued a Memorandum Opinion (the Order) awarding the plaintiff \$2,198,219, plus 18% annual interest from October 22, 2006, plus reasonable attorneys fees. The Court ordered a hearing on attorney's fees within 45 days from the date of the Order. In March of 2009, Chimes – DC and a co-subcontractor entered into a settlement with the plaintiff and agreed to, and did pay the plaintiff \$3 million as a full and final settlement on this claim. On July 30, 2009, Chimes – DC sought to recover, from the United State Government (Government) all amounts paid to the plaintiff pursuant to the settlement. During the year ended June 30, 2010, the case with the Government was settled. Chimes – DC received \$2,467,466 as a result of the settlement.

The Organization is involved in litigation arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the consolidated financial statements of the Organization.

## **NOTE R – RELATED PARTY TRANSACTIONS**

The Organization has made and received advances to and from certain related parties. No interest accrues on these advances and they are due on demand. The balances of these advances at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Due from related party	\$ -	\$ 28,495

## **NOTE S – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid for interest during the years ended June 30, 2011 and 2010, was \$514,481 and \$687,864, respectively.

During the year ended June 30, 2011, the Organization received \$2,052,729 from the DEDA bonds, \$1,553,533 of which was used to make payments on Chimes-DC and International's revolving credit note (See Note H) and \$499,196 of which was used to pay the remainder of the balance on a mortgage to Wilmington Trust (See Note J). The Organization also acquired \$63,551 of equipment financed through capital leases. During the year ended June 30, 2010, the Organization did not have any noncash financing transactions.

## **NOTE T – DUE FROM/TO THIRD-PARTY PAYOR**

Amounts due to third-party payor include monies the Organization received in excess of grant funds for room and board, which is due back to the state. The Organization's total amount due to third-party payors as of June 30, 2011 and 2010 is \$320,082 and \$100,371, respectively.

**NOTE U – INVESTMENT IN CLOSELY HELD COMPANY**

As of June 30, 2011, the Foundation held a 49% interest in a closely held corporation (The Corporation) with no capital investment. The Corporation operates on a calendar year and reported operating losses during the initial year of operations. The Foundation loaned the Corporation \$290,000 in connection with start up, and makes additional short-term loans to the Corporation from time to time, with interest payable at a rate of prime plus 2% adjusted monthly. The amounts due to Foundation were \$75,000 and \$-0- for the years ended June 30, 2011 and 2010, respectively. The agreement states that International, which provides accounting and payroll services, receives a management fee of 3% of the Corporation's gross revenues. Total management fee income was \$384,844 and \$394,370 for the years ending June 30, 2011 and 2010, respectively. This fee is taxable under Internal Revenue Code Section 512. For the years ended June 30, 2011 and 2010, there was no liability for unrelated business income taxes.

**SUPPLEMENTARY INFORMATION**



**GORFINE, SCHILLER & GARDYN, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

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

Our report on our audit of the basic consolidated financial statements of Chimes International Limited and Related Entities for the year ended June 30, 2011 appears on page 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. The audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information in the accompanying schedules are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in its net assets, and its cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Gorfine, Schiller & Gardyn, P.A.*

**November 16, 2011  
Owings Mills, Maryland**

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**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

*June 30, 2011*

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 8,019,545	\$ 1,617,103	\$ 252,702	\$ 63,342	\$ 627,121
Accounts receivable, net of allowance for doubtful accounts	972,908	3,256,356	11,340,593	337,363	198,469
Pledges receivable	-	-	-	-	-
Prepaid expenses	130,017	93,997	91,826	34,109	286,308
Current portion of loans receivable	-	-	-	-	-
Notes receivable from affiliates, current portion	-	-	-	-	-
Investments, current	-	-	-	-	-
Due from related parties	<u>5,110,082</u>	<u>-</u>	<u>1,388,098</u>	<u>1,167,896</u>	<u>3,485,716</u>
<b>Total current assets</b>	<u>14,232,552</u>	<u>4,967,456</u>	<u>13,073,219</u>	<u>1,602,710</u>	<u>4,597,614</u>
<b>NONCURRENT ASSETS</b>					
Land, buildings and equipment, net of accumulated depreciation	19,022,200	5,293,654	1,535,483	195,226	1,277,030
Intangible assets, net of accumulated amortization	147,843	73,792	-	-	-
Long-term pledges receivable	-	-	-	-	-
Note receivable from affiliates, net	-	-	-	-	-
Loans receivable, net of current portion	-	-	-	-	-
Investments, long-term	-	-	-	-	-
Other noncurrent assets	<u>27,081</u>	<u>88,011</u>	<u>8,333</u>	<u>30,995</u>	<u>104,209</u>
<b>Total noncurrent assets</b>	<u>19,197,124</u>	<u>5,455,457</u>	<u>1,543,816</u>	<u>226,221</u>	<u>1,381,239</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 33,429,676</u>	 <u>\$ 10,422,913</u>	 <u>\$ 14,617,035</u>	 <u>\$ 1,828,931</u>	 <u>\$ 5,978,853</u>

*See auditors' report on supplementary information.*

Family Services Association, Inc.	Holcomb Associates, Inc.	Open Door, Inc.	Developmental Services of New Jersey, Inc.	Chimes Foundation, Incorporated	Eliminations	Totals
\$ 57,351	\$ 182,567	\$ 206,816	\$ 5,227	\$ 1,032,253	\$ -	\$ 12,064,027
28,266	2,433,002	44,033	590,403	-	-	19,201,393
-	-	-	-	248,263	-	248,263
-	224,374	14,169	-	4,463	-	879,263
-	-	-	-	85,027	-	85,027
-	-	-	-	201,225	(201,225)	-
-	-	-	-	1,667,747	-	1,667,747
<u>2,496</u>	<u>302,007</u>	<u>69,313</u>	<u>-</u>	<u>10,486</u>	<u>(11,536,094)</u>	<u>-</u>
<u>88,113</u>	<u>3,141,950</u>	<u>334,331</u>	<u>595,630</u>	<u>3,249,464</u>	<u>(11,737,319)</u>	<u>34,145,720</u>
232,705	3,469,547	41,421	-	-	-	31,067,266
-	-	-	-	-	-	221,635
-	-	-	-	187,333	-	187,333
-	-	-	-	1,637,168	(1,637,168)	-
-	-	-	-	347,532	-	347,532
-	-	-	-	2,851,170	-	2,851,170
-	120,602	6,683	-	4,367	-	390,281
<u>232,705</u>	<u>3,590,149</u>	<u>48,104</u>	<u>-</u>	<u>5,027,570</u>	<u>(1,637,168)</u>	<u>35,065,217</u>
<u>\$ 320,818</u>	<u>\$ 6,732,099</u>	<u>\$ 382,435</u>	<u>\$ 595,630</u>	<u>\$ 8,277,034</u>	<u>\$ (13,374,487)</u>	<u>\$ 69,210,937</u>

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION - CONTINUED**

*June 30, 2011*

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Current maturities of long-term debt	\$ 289,938	\$ 126,743	\$ 52,825	\$ -	\$ -
Short-term borrowings	-	-	3,910,615	-	-
Accounts payable	681,597	270,420	1,901,954	41,711	567,490
Accrued expenses and other liabilities	3,535,409	1,077,261	4,813,932	205,637	3,880,850
Deferred revenue	11,995,950	-	21,818	-	-
Deferred rent	-	-	-	-	-
Due to third-party payors	313,453	-	-	6,629	-
Due to related parties	<u>2,536,799</u>	<u>3,234,507</u>	<u>10,400</u>	<u>19,081</u>	<u>3,406,643</u>
<b>Total current liabilities</b>	<u>19,353,146</u>	<u>4,708,931</u>	<u>10,711,544</u>	<u>273,058</u>	<u>7,854,983</u>
<b>LONG-TERM DEBT</b>					
Bonds payable	4,978,333	2,002,216	-	-	-
Mortgages and notes payable	1,472,031	178,649	-	-	-
Capital lease obligations	<u>-</u>	<u>-</u>	<u>33,462</u>	<u>-</u>	<u>-</u>
<b>Total long-term debt, net of current maturities</b>	<u>6,450,364</u>	<u>2,180,865</u>	<u>33,462</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>25,803,510</u>	<u>6,889,796</u>	<u>10,745,006</u>	<u>273,058</u>	<u>7,854,983</u>
<b>NET ASSETS (DEFICIENCY)</b>					
Unrestricted					
Undesignated	7,626,166	3,533,117	3,872,029	1,555,873	(1,876,130)
Board designated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	7,626,166	3,533,117	3,872,029	1,555,873	(1,876,130)
Temporarily restricted	-	-	-	-	-
Permanently restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total net assets (deficiency)</b>	<u>7,626,166</u>	<u>3,533,117</u>	<u>3,872,029</u>	<u>1,555,873</u>	<u>(1,876,130)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 33,429,676</u>	<u>\$ 10,422,913</u>	<u>\$ 14,617,035</u>	<u>\$ 1,828,931</u>	<u>\$ 5,978,853</u>

*See auditors' report on supplementary information.*

<u>Family Services Association, Inc.</u>	<u>Holcomb Associates, Inc.</u>	<u>Open Door, Inc.</u>	<u>Developmental Services of New Jersey, Inc.</u>	<u>Chimes Foundation, Incorporated</u>	<u>Eliminations</u>	<u>Totals</u>
\$ 6,732	\$ 55,523	\$ -	\$ -	\$ -	\$ (201,225)	\$ 330,536
-	-	-	-	-	-	3,910,615
16,399	293,452	6,693	-	59,409	-	3,839,125
5,259	1,325,378	46,844	43,718	50,000	-	14,984,288
57,051	91,177	37,395	-	-	-	12,203,391
-	107,069	-	-	-	-	107,069
-	-	-	-	-	-	320,082
<u>302,007</u>	<u>69,314</u>	<u>2,495</u>	<u>1,892,461</u>	<u>62,387</u>	<u>(11,536,094)</u>	<u>-</u>
<u>387,448</u>	<u>1,941,913</u>	<u>93,427</u>	<u>1,936,179</u>	<u>171,796</u>	<u>(11,737,319)</u>	<u>35,695,106</u>
-	-	-	-	-	-	6,980,549
211,126	1,681,727	-	-	-	(1,637,168)	1,906,365
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,462</u>
<u>211,126</u>	<u>1,681,727</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,637,168)</u>	<u>8,920,376</u>
<u>598,574</u>	<u>3,623,640</u>	<u>93,427</u>	<u>1,936,179</u>	<u>171,796</u>	<u>(13,374,487)</u>	<u>44,615,482</u>
(277,756)	3,108,459	289,008	(1,340,549)	4,982,549	-	21,472,766
-	-	-	-	1,941,231	-	1,941,231
<u>(277,756)</u>	<u>3,108,459</u>	<u>289,008</u>	<u>(1,340,549)</u>	<u>6,923,780</u>	<u>-</u>	<u>23,413,997</u>
-	-	-	-	149,817	-	149,817
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,031,641</u>	<u>-</u>	<u>1,031,641</u>
<u>(277,756)</u>	<u>3,108,459</u>	<u>289,008</u>	<u>(1,340,549)</u>	<u>8,105,238</u>	<u>-</u>	<u>24,595,455</u>
<u>\$ 320,818</u>	<u>\$ 6,732,099</u>	<u>\$ 382,435</u>	<u>\$ 595,630</u>	<u>\$ 8,277,034</u>	<u>\$ (13,374,487)</u>	<u>\$ 69,210,937</u>

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES**

*For the Year Ended June 30, 2011*

	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.	Chimes International Limited
<b>REVENUE, GAINS AND OTHER SUPPORT</b>					
Mental health services	\$ -	\$ -	\$ -	\$ -	\$ -
Developmental disabilities services	42,892,979	22,825,319	-	4,209,797	-
Employment contractual services	-	-	70,128,479	-	-
Management fees	-	-	-	-	8,944,435
Donations and grants	101,825	9,431	-	-	-
Miscellaneous	223,887	18,841	13,092	-	305,600
Fundraising income	-	-	-	-	-
Investment income	-	-	-	-	-
(Loss) gain on sale of assets	33,557	-	-	-	-
<b>Total revenue, gains and other support</b>	<u>43,252,248</u>	<u>22,853,591</u>	<u>70,141,571</u>	<u>4,209,797</u>	<u>9,250,035</u>
<b>EXPENSES AND LOSSES</b>					
<b>Program services</b>					
Mental health services	-	-	-	-	-
Developmental disabilities services	36,479,924	19,334,641	-	3,444,277	-
Employment contractual services	-	-	62,316,640	-	-
Grants	-	-	-	-	-
Total program expenses	<u>36,479,924</u>	<u>19,334,641</u>	<u>62,316,640</u>	<u>3,444,277</u>	<u>-</u>
<b>Supporting services</b>					
Administrative expenses	5,446,568	2,322,725	8,238,600	706,021	9,256,487
Fundraising expenses	-	-	-	-	-
Total supporting services	<u>5,446,568</u>	<u>2,322,725</u>	<u>8,238,600</u>	<u>706,021</u>	<u>9,256,487</u>
<b>Total expenses and losses</b>	<u>41,926,492</u>	<u>21,657,366</u>	<u>70,555,240</u>	<u>4,150,298</u>	<u>9,256,487</u>
<b>CHANGES IN NET ASSETS</b>	1,325,756	1,196,225	(413,669)	59,499	(6,452)
<b>NET ASSETS (DEFICIENCY), Beginning</b>	<u>6,300,410</u>	<u>2,336,892</u>	<u>4,285,698</u>	<u>1,496,374</u>	<u>(1,869,678)</u>
<b>NET ASSETS (DEFICIENCY), Ending</b>	<u>\$ 7,626,166</u>	<u>\$ 3,533,117</u>	<u>\$ 3,872,029</u>	<u>\$ 1,555,873</u>	<u>\$ (1,876,130)</u>

*See auditors' report on supplementary information.*

<u>Family Services Association, Inc.</u>	<u>Holcomb Associates, Inc.</u>	<u>Open Door, Inc.</u>	<u>Developmental Services of New Jersey, Inc.</u>	<u>Chimes Foundation, Incorporated</u>	<u>Eliminations</u>	<u>Totals</u>
\$ 112,161	\$ 21,906,939	\$ 1,505,906	\$ -	\$ -	\$ -	\$ 23,525,006
-	-	-	-	-	(709,564)	69,218,531
-	-	-	-	-	(640,509)	69,487,970
-	120,000	-	-	-	(8,679,591)	384,844
22,443	46,327	2,758	-	141,391	-	324,175
1,635	2,413	35,775	-	-	(143,785)	457,458
-	-	-	-	841,462	-	841,462
-	-	-	-	660,235	(110,909)	549,326
-	-	-	-	-	-	33,557
<u>136,239</u>	<u>22,075,679</u>	<u>1,544,439</u>	<u>-</u>	<u>1,643,088</u>	<u>(10,284,358)</u>	<u>164,822,329</u>
85,143	18,924,667	1,328,090	-	-	-	20,337,900
-	-	-	-	-	(1,291,597)	57,967,245
-	-	-	-	-	-	62,316,640
-	-	-	-	221,410	-	221,410
<u>85,143</u>	<u>18,924,667</u>	<u>1,328,090</u>	<u>-</u>	<u>221,410</u>	<u>(1,291,597)</u>	<u>140,843,195</u>
73,819	2,898,850	198,514	-	243,634	(8,992,761)	20,392,457
-	-	-	-	246,021	-	246,021
<u>73,819</u>	<u>2,898,850</u>	<u>198,514</u>	<u>-</u>	<u>489,655</u>	<u>(8,992,761)</u>	<u>20,638,478</u>
<u>158,962</u>	<u>21,823,517</u>	<u>1,526,604</u>	<u>-</u>	<u>711,065</u>	<u>(10,284,358)</u>	<u>161,481,673</u>
(22,723)	252,162	17,835	-	932,023	-	3,340,656
<u>(255,033)</u>	<u>2,856,297</u>	<u>271,173</u>	<u>(1,340,549)</u>	<u>7,173,215</u>	<u>-</u>	<u>21,254,799</u>
<u>\$ (277,756)</u>	<u>\$ 3,108,459</u>	<u>\$ 289,008</u>	<u>\$ (1,340,549)</u>	<u>\$ 8,105,238</u>	<u>\$ -</u>	<u>\$ 24,595,455</u>

**CHIMES INTERNATIONAL LIMITED AND RELATED ENTITIES**  
**CONSOLIDATING SCHEDULE OF LAND, BUILDINGS AND EQUIPMENT**  
*June 30, 2011*

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	The Chimes, Inc.	Chimes Metro, Inc.	Chimes District of Columbia, Inc.	Chimes Virginia, Inc.
Land	\$ 2,135,736	\$ 880,048	\$ -	\$ -
Buildings and improvements	24,449,287	3,946,009	-	-
Land improvements	246,975	-	-	-
Automobiles	1,782,172	233,491	985,747	60,318
Furnishings and equipment	3,506,002	884,456	6,994,353	289,485
Leasehold improvements	859,768	748,336	-	208,570
Construction in progress	-	401,428	-	-
	32,979,940	7,093,768	7,980,100	558,373
Less: accumulated depreciation	13,957,740	1,800,114	6,444,617	363,147
	\$ 19,022,200	\$ 5,293,654	\$ 1,535,483	\$ 195,226

*See auditors' report on supplementary information.*

<u>Chimes International Limited</u>	<u>Family Services Association, Inc.</u>	<u>Holcomb Associates, Inc.</u>	<u>Open Door, Inc.</u>	<u>Totals</u>
\$ -	\$ 70,000	\$ 516,500	\$ -	\$ 3,602,284
513,859	276,576	3,018,062	-	32,203,793
-	-	-	-	246,975
65,174	-	825,317	-	3,952,219
5,075,477	29,741	598,895	41,148	17,419,557
-	-	42,747	69,814	1,929,235
-	-	-	-	<u>401,428</u>
5,654,510	376,317	5,001,521	110,962	59,755,491
<u>4,377,480</u>	<u>143,612</u>	<u>1,531,974</u>	<u>69,541</u>	<u>28,688,225</u>
<u>\$ 1,277,030</u>	<u>\$ 232,705</u>	<u>\$ 3,469,547</u>	<u>\$ 41,421</u>	<u>\$ 31,067,266</u>