# Douglas A. Thom Clinic, Inc.

## Financial Statements

Years Ended June 30, 2010 and 2009

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FINANCIAL STATEMENTS
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Years Ended June 30, 2010 and 2009

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caturano
and company

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Douglas A. Thom Clinic, Inc.
Natick, Massachusetts

We have audited the accompanying statements of financial position of Douglas A. Thom Clinic, Inc. (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Douglas A. Thom Clinic, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Douglas A. Thom Clinic, Inc. as of June 30, 2010 and 2009, 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 of America.

Caturano and Company, Inc.

CATURANO AND COMPANY, INC.

October 18, 2010
Boston, Massachusetts

# Douglas A. Thom Clinic, Inc.

Statements of Financial Position
June 30, 2010 and 2009

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | **649,657** | $ | 710,529 |
| Accounts receivable, net of allowance for doubtful accounts | | **4,929,628** | | 4,500,205 |
| Unbilled accounts receivable | | **315,382** | | 211,289 |
| Investments | | **133,330** | | 99,469 |
| Prepaid expenses | | **297,305** | | 235,253 |
| Total current assets | | **6,325,302** | | 5,756,745 |
| Property and equipment, net of accumulated depreciation | | **968,803** | | 882,656 |
| Other assets: | | | | |
| Cash surrender value of life insurance | | **33,048** | | 29,644 |
| Deposits | | **40,298** | | 33,698 |
| Total other assets | | **73,346** | | 63,342 |
| | **$** | **7,367,451** | $ | 6,702,743 |
| **LIABILITIES AND NET ASSETS** | | | | |
| Current liabilities: | | | | |
| Accounts payable | **$** | **297,204** | $ | 153,620 |
| Accrued expenses | | **719,931** | | 753,478 |
| Current portion of long-term debt | | **16,851** | | 41,364 |
| Total current liabilities | | **1,033,986** | | 948,462 |
| Long term liabilities: | | | | |
| Long-term debt, net of current portion | | **381,678** | | 468,985 |
| Net assets: | | | | |
| Unrestricted | | **5,834,229** | | 5,168,548 |
| Temporarily restricted | | **117,558** | | 116,748 |
| | | **5,951,787** | | 5,285,296 |
| | **$** | **7,367,451** | $ | 6,702,743 |

See notes to financial statements.

# Douglas A. Thom Clinic, Inc.

Statements of Activities

Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Changes in unrestricted net assets: | | |
| Revenues and other support: | | |
| Program service fees and reimbursements | $ 26,903,227 | $ 25,284,818 |
| Billing and support services | 164,880 | 142,945 |
| Grants | 128,769 | 141,941 |
| Contributions | 32,449 | 22,318 |
| Interest income | 9,587 | 7,262 |
| Net assets released from restriction | 1,841 | 484 |
| Total revenues and other support | 27,240,753 | 25,599,768 |
| Expenses: | | |
| Program services | 24,600,335 | 23,051,107 |
| Management and general | 1,936,187 | 1,830,657 |
| Fundraising | 45,077 | 63,147 |
| Total expenses | 26,581,599 | 24,944,911 |
| Increase in unrestricted net assets before unrealized gain (loss) on investments | 659,154 | 654,857 |
| Net unrealized gain (loss) on investments | 6,527 | (14,853) |
| Increase in unrestricted net assets | 665,681 | 640,004 |
| Changes in temporarily restricted net assets: | | |
| Interest income | 151 | 277 |
| Contributions | 2,500 | 3,000 |
| Net assets released from restriction | (1,841) | (484) |
| Increase in temporarily restricted net assets | 810 | 2,793 |
| Increase in net assets | 666,491 | 642,797 |
| Net assets, beginning of year | 5,285,296 | 4,642,499 |
| Net assets, end of year | $ 5,951,787 | $ 5,285,296 |

See notes to financial statements.

# Douglas A. Thom Clinic, Inc.

Statements of Functional Expenses

Years Ended June 30, 2010 and 2009

| | 2010 | | | |
|---|---|---|---|---|
| | **Program Services** | **Management and General** | **Fundraising** | **Total** |
| **Salaries, wages, payroll taxes and fringe benefits** | **$ 22,240,071** | **$ 1,319,237** | **$ 40,111** | **$ 23,599,419** |
| **Occupancy** | **831,650** | **187,915** | **2,854** | **1,022,419** |
| **Office supplies and purchased services** | **605,654** | **255,509** | **2,075** | **863,238** |
| **Travel reimbursement** | **676,589** | **3,019** | **37** | **679,645** |
| **Contracted professional fees** | **168,898** | **-** | **-** | **168,898** |
| **Staff training** | **50,720** | **-** | **-** | **50,720** |
| **Professional fees** | **-** | **90,700** | **-** | **90,700** |
| **Depreciation** | **10,439** | **50,218** | **-** | **60,657** |
| **Interest expense** | **1,308** | **29,589** | **-** | **30,897** |
| **Meals** | **15,006** | **-** | **-** | **15,006** |
| | **$ 24,600,335** | **$ 1,936,187** | **$ 45,077** | **$ 26,581,599** |

| | 2009 | | | |
|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total |
| Salaries, wages, payroll taxes and fringe benefits | $ 20,754,526 | $ 1,159,240 | $ 54,942 | $ 21,968,708 |
| Occupancy | 796,165 | 184,258 | 4,276 | 984,699 |
| Office supplies and purchased services | 528,690 | 318,654 | 3,884 | 851,228 |
| Travel reimbursement | 638,511 | 2,608 | 45 | 641,164 |
| Contracted professional fees | 208,442 | - | - | 208,442 |
| Staff training | 98,531 | - | - | 98,531 |
| Professional fees | - | 86,962 | - | 86,962 |
| Depreciation | 7,787 | 36,390 | - | 44,177 |
| Interest expense | 616 | 42,545 | - | 43,161 |
| Meals | 17,839 | - | - | 17,839 |
| | $ 23,051,107 | $ 1,830,657 | $ 63,147 | $ 24,944,911 |

# Douglas A. Thom Clinic, Inc.

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Increase in net assets | $ | **666,491** | $ | 642,797 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | | | |
| Depreciation | | **60,657** | | 44,177 |
| Net unrealized (gain) loss on investments | | **(6,527)** | | 14,853 |
| Loss on disposition of property and equipment | | **4,367** | | - |
| Reinvested interest and dividends on investments | | **(2,334)** | | (3,908) |
| Cash provided by operating activities before changes in assets and liabilities | | **722,654** | | 697,919 |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in: | | | | |
| Accounts receivable | | **(429,423)** | | (298,258) |
| Unbilled accounts receivable | | **(104,093)** | | (211,289) |
| Prepaid expenses | | **(62,052)** | | 8,600 |
| Deposits | | **(6,600)** | | - |
| Increase (decrease) in: | | | | |
| Accounts payable | | **143,584** | | 19,450 |
| Accrued expenses | | **(33,547)** | | (125,081) |
| Net cash provided by operating activities | | **230,523** | | 91,341 |
| Cash flows from investing activities: | | | | |
| Increase in cash surrender value of life insurance | | **(3,404)** | | (3,404) |
| Purchase of investments | | **(25,000)** | | (25,000) |
| Purchase of property and equipment | | **(151,171)** | | (42,587) |
| Net cash used in investing activities | | **(179,575)** | | (70,991) |
| Cash flows from financing activities: | | | | |
| Payments on long-term debt | | **(111,820)** | | (9,056) |
| Net cash used in financing activities | | **(111,820)** | | (9,056) |
| Net increase (decrease) in cash and cash equivalents | | **(60,872)** | | 11,294 |
| Cash and cash equivalents, beginning of year | | **710,529** | | 699,235 |
| Cash and cash equivalents, end of year | $ | **649,657** | $ | 710,529 |
| **Supplemental disclosure of cash flow information:** | | | | |
| Interest paid during the year | $ | **30,896** | $ | 43,161 |

See notes to financial statements.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Douglas A. Thom Clinic, Inc. (the Clinic) (d/b/a Thom Child and Family Services) is a not-for-profit corporation organized under Massachusetts law. The Clinic operates early intervention programs in Boston, Marlboro, Springfield, Lowell, Norwood, Westfield, Waltham, Woburn, and West Newbury, Massachusetts.

Early intervention services are a combination of educational and therapeutic developmental services provided to children from birth to three years of age and their families. The Clinic's administrative offices are located in Natick, Massachusetts.

The financial statements of the Clinic have been prepared on the accrual basis of accounting. A summary of the significant accounting policies applied in the preparation of the financial statements follows.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets generally accepted accounting principles ("GAAP") that the Clinic follows to ensure its statements of financial position, statements of activities, and cash flows are consistently reported. References to GAAP issued by the FASB in these notes to the financial statements are to the FASB Accounting Standards Codification ("ASC"), which was effective for the Clinic for the year ended June 30, 2010.

The financial statements are presented in accordance with ASC 958 – *Financial Statements of Not-for Profit Organizations*. Under ASC 958, the Clinic is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent the portion of net assets of the Clinic that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Clinic is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Clinic pursuant to those stipulations. Temporarily restricted net assets at June 30, 2010 and 2009 consist of funds donated for educational activities.

Permanently restricted net assets represent the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity and only the income from investments thereof be expended for other general purposes or a purpose specified by the donor. For the years ended June 30, 2010 and 2009, the Clinic had no permanently restricted net assets.

Program Service Fees and Reimbursements

The Clinic has agreements with third-party payors that provide for payments to the Clinic based on predetermined rates. These rates are not subject to retroactive adjustments. For payments denied by third-party payors, the Clinic seeks reimbursement by the Department of Public Health of the Commonwealth of Massachusetts.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Grants

The Clinic recognizes grant income as it is earned in accordance with the terms of the underlying grant agreement. All grant income is unrestricted and has been recognized as an increase in unrestricted net assets. Receivables related to grants have been included in accounts receivable at June 30, 2010 and 2009. Conditional grants received in advance of the grant contributions being met are recorded as refundable advances.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. If restricted contribution restrictions were met and released in the current year, the contribution and related investment income would be reported as unrestricted revenue. During the year ended June 30, 2010 and 2009, the Clinic received temporarily restricted contributions of $2,500 and $3,000, respectively restricted for educational activities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Clinic considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

The Clinic maintains its cash in bank deposit accounts, which at times may exceed insured limits. The Clinic has not experienced any losses in such accounts. The Clinic believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable at the end of the year. Bad debts are written off against the allowance when identified as uncollectible once all collection efforts have been exhausted. At June 30, 2010 and 2009, the allowance for doubtful accounts was $249,193 and $192,625, respectively.

Unbilled Accounts Receivable

Revenues recognized in advance of billings are classified as unbilled accounts receivable on the accompanying statement of financial position. At June 30, 2010 and 2009, the unbilled accounts receivable was $315,382 and $211,289, respectively.

Concentration of Credit Risk

The Clinic operates exclusively in the Commonwealth of Massachusetts. The Clinic grants credit without collateral to its patients and is reimbursed by third-party payors and the Commonwealth of Massachusetts. The mix of receivables was as follows as of June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Third-party payors | $ 2,299,689 | $ 1,832,518 |
| Massachusetts Department of Public Health | 1,889,551 | 2,241,640 |
| Medicaid | 969,029 | 568,373 |
| Other | 20,552 | 50,299 |
| Allowance for Doubtful Accounts | (249,193) | (192,625) |
| | $ 4,929,628 | $ 4,500,205 |

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Investments

In accordance with ASC 958 – *Financial Statements of Not-for Profit Organizations,* investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in unrestricted net assets on the accompanying statements of activities.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, ranging from three to forty years. When assets are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statement of activities. The costs of maintenance and repairs are charged to expense as incurred, significant renewals and betterments are capitalized.

Income Taxes

The Clinic was incorporated in 1933 under Massachusetts General Laws Chapter 180, and is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code. The Clinic is exempt from federal and state income taxes on its related business income pursuant to Section 501(a) of the Code.

The Clinic follows FASB ASC 740 - *Income Taxes*, which clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management believes the Clinic has no material uncertainties in income taxes. The Clinic is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

Functional Allocation of Expenses

The costs of providing the Clinic's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among program and supporting services benefited. Expenses are allocated on a percentage basis between program services, management and general, and fundraising expenses. Management reviews the allocation on a yearly basis to ensure an accurate allocation of expenses.

Fair Value Measurements

On July 1, 2008, the Clinic adopted the portion of the guidance in FASB ASC 820 – *Fair Value Measurements and Disclosures*, which defines fair value, and establishes 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 are described below:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**...continued

Fair Value Measurements...continued

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Clinic in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Clinic's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Clinic uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which was included in Subtopic 820-10-35 in the FASB Codification. ASC 820-10-35 provides guidance regarding how to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability. In such situations, an entity may conclude that transactions or quoted prices may not be determinative of fair value, and may adjust the transactions or quoted prices to arrive at the fair value of the asset or liability. ASC 820-10-35 also requires disclosures of the breakdown of debt and equity investments by major category based on nature and risks of the investments. This guidance within ASC 820 was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, and must be applied prospectively. The Clinic adopted this guidance effective for the year ended June 30, 2009. See Note 4 for related disclosures.

Effective July 1, 2009, the guidance in FASB ASC 820 became effective for nonfinancial assets or nonfinancial liabilities that are recorded or disclosed at fair value on a non-recurring basis. As of the adoption date and June 30, 2010, the Clinic does not have any non-financial assets or liabilities which are required to be at fair value.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Fair Value Measurements...continued

In September 2009, the FASB issued ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which amends the Fair Value Measurements and Disclosures Topic of the FASB ASC to permit the use of net asset value per share, without further adjustment, to estimate the fair value of investments in investment companies that do not have readily determinable fair values. The net asset value per share must be calculated in a manner consistent with the measurement principles of the Financial Services – Investment Companies Topic of the FASB ASC and can be used by investors in investments such as hedge funds, private equity funds, venture capital funds and real estate funds. If it is probable the investment will be sold for an amount other than net asset value, the investor would be required to estimate the fair value of the investment considering all of the rights and obligations of the investment and any other market available data. In addition, the amendments require enhanced disclosure for the investments within the scope of this accounting update. The accounting guidance in ASU 2009-12 is effective for periods ending after December 15, 2009, and early adoption is permitted. The Clinic adopted these amendments effective for the year ended June 30, 2010. See Note 4 for related disclosures.

Valuation Techniques

There have been no changes in the valuation techniques used during the current period.

Investments

The mutual funds, preferred stock, common stock and equities are valued based upon quoted prices from an active market. These securities are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied. The certificate of deposit is valued at cost plus accrued interest, which approximates fair value, and is categorized as Level 2.

Future Adoption of Accounting Standards

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06), which primarily requires new disclosures related to the levels within the fair value hierarchy. An entity will be required to disclose significant transfers in and out of Levels 1 and 2 of the fair value hierarchy, and separately present information related to purchases, sales, issuances and settlements in the reconciliation of fair value measurements classified as Level 3. ASU 2010-06 will be effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures related to purchases, sales, issuances and settlements for Level 3 fair value measurements, which are effective for reporting periods beginning after December 15, 2010. The Clinic will include the disclosures as required by ASU 2010-06 in the notes to the Clinic's financial statements effective for the year ending June 30, 2011, except for the disclosures related to Level 3 fair value measurements, which will be included in the notes to the Clinic's financial statements effective for the year ending June 30, 2012.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

## 2. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Furniture and equipment | $ 346,802 | $ 227,413 |
| Computer software | 6,315 | 6,315 |
| Building | 820,597 | 820,597 |
| Leasehold improvements | 97,477 | 93,027 |
| | 1,271,191 | 1,147,352 |
| Less - accumulated depreciation | 302,388 | 264,696 |
| Net property and equipment | $ 968,803 | $ 882,656 |

## 3. INVESTMENTS

At June 30, 2010 and 2009, investments are stated at fair value and consist of the following:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Cost | Fair Value | Unrealized Gain (Loss) | Cost | Fair Value | Unrealized Gain (Loss) |
| Mutual funds | $ 116,269 | $104,941 | $ (11,328) | $ 88,935 | $ 73,119 | $ (15,816) |
| Certificate of deposit | 12,477 | 14,603 | 2,126 | 12,477 | 14,360 | 1,883 |
| Preferred stock | 1,000 | 1,000 | - | 1,000 | 1,000 | - |
| Common stock | 22,011 | 12,786 | (9,225) | 22,011 | 10,990 | (11,021) |
| | $ 151,757 | $133,330 | $ (18,427) | $124,423 | $ 99,469 | $ (24,954) |

The following schedule summarizes the investment return in the statement of activities for the years ended June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Net unrealized gain (loss) on investments | $ 6,527 | $ (14,853) |
| Investment income | 2,334 | 3,908 |
| Total investment gain (loss) | $ 8,861 | $ (10,945) |

Investment income is included in interest income in the accompanying statements of activities.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

## 4. FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of June 30, 2010 and 2009 are as follows:

| | Total Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| June 30, 2010: | | | | |
| Investments: | | | | |
| Mutual funds | | | | |
| World stock | $ 56,912 | $ 56,912 | $ - | $ - |
| Bond funds | 27,619 | 27,619 | - | - |
| Value funds | 20,410 | 20,410 | - | - |
| Total mutual funds | 104,941 | 104,941 | - | - |
| Certificate of deposit | 14,603 | - | 14,603 | - |
| Preferred stock | 1,000 | 1,000 | - | - |
| Common stocks and equities | 12,786 | 12,786 | - | - |
| Total investments | $ 133,330 | $ 118,727 | $ 14,603 | $ - |
| June 30, 2009: | | | | |
| Investments: | | | | |
| Mutual funds: | | | | |
| World stock | $ 39,623 | $ 39,623 | $ - | $ - |
| Bond funds | 19,619 | 19,619 | - | - |
| Value funds | 13,877 | 13,877 | - | - |
| Total mutual funds | 73,119 | 73,119 | - | - |
| Certificate of deposit | 14,360 | - | 14,360 | - |
| Preferred stock | 1,000 | 1,000 | - | - |
| Common stocks and equities | 10,990 | 10,990 | - | - |
| Total investments | $ 99,469 | $ 85,109 | $ 14,360 | - |

## 5. LINE OF CREDIT

The Clinic has a line of credit agreement with a financial institution. Borrowings are limited to the lesser of $1,450,000 or 50% of 0 - 60 day accounts receivable. All borrowings are due on demand and bear interest at prime plus 1% (4.25% at June 30, 2010). The line is collateralized by substantially all assets of the Clinic. The line will expire on January 31, 2011. There were no borrowings outstanding under the agreement at June 30, 2010 or June 30, 2009.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

## 6. LONG-TERM DEBT

During the year ended June 30, 2008, the Clinic secured a loan with the same financial institution as the line of credit in the original amount of $521,516 in connection with a building purchase. The loan matures in March 2028 and the Clinic is required to make monthly payments of principal and interest of $3,447, paid in arrears. The loan bears interest at a stated rate of 6.18% per annum for the first ten years. Thereafter, the Clinic shall pay the Federal Home Loan Board Classic 10 Year Rate plus one hundred and sixty basis points, with a rate floor of 6.18%. The loan is secured by all business assets of the Clinic.

Aggregate maturities of long-term debt under the loan for the years ending June 30 are as follows:

| | |
|---|---|
| 2011 | $ 16,851 |
| 2012 | 19,094 |
| 2013 | 20,326 |
| 2014 | 21,636 |
| 2015 | 23,032 |
| Thereafter | 297,590 |
| | $ 398,529 |

## 7. RETIREMENT PLAN

The Clinic has a tax sheltered annuity retirement plan under Section 403(b) of the Internal Revenue Code, which covers all eligible employees. All participating employees have salary reduction contributions made on their behalf. In addition, the Clinic contributes an amount equal to 25% of the employee's salary reduction contributions, not to exceed 1% of the employee's annual compensation. Retirement plan expense for the years ended June 30, 2010 and 2009 was $110,904 and $80,951, respectively.

The Clinic has a deferred compensation plan under Section 457(b) of the Internal Revenue Code, which covers selected key management. Participants are at all times fully vested. The participants of this plan are unsecured creditors of the Clinic for the amount of their deferred compensation balances. At June 30, 2010 and 2009, the related deferred compensation liability was $105,000 and $80,000, respectively and is included in accrued expenses in the statements of financial position.

## 8. COMMITMENTS

The Clinic leases facilities for certain locations under operating leases expiring on various dates through June 30, 2015. The Clinic also leases certain office equipment under operating leases expiring through June 2015. Rent expense under the aggregate leases was $763,508 and $722,557 for the years ended June 30, 2010 and 2009, respectively.

Future minimum annual rentals under the facility and equipment leases are as follows for the years ending June 30:

| | |
|---|---|
| 2011 | $ 808,000 |
| 2012 | 654,000 |
| 2013 | 519,000 |
| 2014 | 380,000 |
| 2015 | 55,000 |
| | $ 2,416,000 |

## 9. RELATED PARTY TRANSACTIONS

During fiscal years 2010 and 2009, the Clinic obtained help wanted media services from an organization whose director is on the Board of Directors of the Clinic. The related expense for the years ended June 30, 2010 and 2009 was approximately $16,300 and $31,000, respectively. In addition, one of the members of the Board of Directors is an insurance broker who provides products and services to the Clinic.

## 10. SIGNIFICANT SOURCE OF REVENUE

The Clinic earns a significant portion of program service fees from the Commonwealth of Massachusetts Department of Public Health. For the years ended June 30, 2010 and 2009, program service fees earned from this program were approximately $5,300,000 and $10,400,000, respectively, representing approximately 20% and 41% of total program service fees and reimbursements.

## 11. SUBSEQUENT EVENTS

The Clinic has evaluated subsequent events through October 18, 2010, the date which the financial statements were available to be issued.