

Douglas A. Thom Clinic, Inc.

Financial Statements

Years Ended June 30, 2011 and 2010

Douglas A. Thom Clinic, Inc.

FINANCIAL STATEMENTS
Years Ended June 30, 2011 and 2010

CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities.....	3
Statements of Functional Expenses.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-14



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Douglas A. Thom Clinic, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The financial statements of Douglas A. Thom Clinic, Inc. for the year ended June 30, 2010 were audited by Caturano and Company, Inc., independent accountants, certain of whose shareholders became partners of McGladrey & Pullen, LLP on July 20, 2010. Caturano and Company, Inc.'s report, dated October 18, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 Douglas A. Thom Clinic, Inc.'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 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 audit provides a reasonable basis for our opinion.

In our opinion, the June 30, 2011 financial statements referred to above present fairly, in all material respects, the financial position of Douglas A. Thom Clinic, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

October 17, 2011
Boston, Massachusetts

Douglas A. Thom Clinic, Inc.

Statements of Financial Position

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,372,448	\$ 649,657
Accounts receivable, net of allowance for doubtful accounts	4,309,480	4,929,628
Unbilled accounts receivable	374,738	315,382
Investments	181,381	133,330
Prepaid expenses	142,663	297,305
Total current assets	<u>7,380,710</u>	<u>6,325,302</u>
Property and equipment, net of accumulated depreciation	<u>980,493</u>	968,803
Other assets:		
Cash surrender value of life insurance	36,451	33,048
Deposits	40,418	40,298
Total other assets	<u>76,869</u>	<u>73,346</u>
	<u>\$ 8,438,072</u>	<u>\$ 7,367,451</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 133,130	\$ 297,204
Accrued expenses	1,348,025	719,931
Current portion of long-term debt	17,937	16,851
Total current liabilities	<u>1,499,092</u>	<u>1,033,986</u>
Long term liabilities:		
Long-term debt, net of current portion	<u>363,741</u>	381,678
Net assets:		
Unrestricted	6,456,233	5,834,229
Temporarily restricted	119,006	117,558
	<u>6,575,239</u>	<u>5,951,787</u>
	<u>\$ 8,438,072</u>	<u>\$ 7,367,451</u>

See notes to financial statements.

Douglas A. Thom Clinic, Inc.

Statements of Activities

Years Ended June 30, 2011 and 2010

	2011	2010
Changes in unrestricted net assets:		
Revenues and other support:		
Program service fees and reimbursements	\$ 27,107,181	\$ 26,903,227
Billing and support services	160,653	164,880
Grants	117,965	128,769
Contributions	24,380	32,449
Interest income	10,966	9,587
Net assets released from restriction	1,437	1,841
Total revenues and other support	<u>27,422,582</u>	<u>27,240,753</u>
Expenses:		
Program services	24,743,200	24,600,335
Management and general	2,030,892	1,936,187
Fundraising	46,874	45,077
Total expenses	<u>26,820,966</u>	<u>26,581,599</u>
Increase in unrestricted net assets before net unrealized gain on investments	601,616	659,154
Net unrealized gain on investments	<u>20,388</u>	<u>6,527</u>
Increase in unrestricted net assets	<u>622,004</u>	<u>665,681</u>
Changes in temporarily restricted net assets:		
Interest income	385	151
Contributions	2,500	2,500
Net assets released from restriction	<u>(1,437)</u>	<u>(1,841)</u>
Increase in temporarily restricted net assets	<u>1,448</u>	<u>810</u>
Increase in net assets	623,452	666,491
Net assets, beginning of year	<u>5,951,787</u>	<u>5,285,296</u>
Net assets, end of year	<u><u>\$ 6,575,239</u></u>	<u><u>\$ 5,951,787</u></u>

See notes to financial statements.

Douglas A. Thom Clinic, Inc.

Statements of Functional Expenses
Years Ended June 30, 2011 and 2010

	2011			
	Program Services	Management and General	Fundraising	Total
Salaries, wages, payroll taxes and fringe benefits	\$ 22,540,863	\$ 1,397,097	\$ 42,200	\$ 23,980,160
Occupancy	861,157	182,227	2,758	1,046,142
Office supplies and purchased services	469,287	282,995	1,902	754,184
Travel reimbursement	664,162	892	14	665,068
Contracted professional fees	122,559	-	-	122,559
Staff training	50,356	-	-	50,356
Professional fees	-	76,856	-	76,856
Depreciation	13,566	66,187	-	79,753
Interest expense	551	24,505	-	25,056
Meals	20,699	133	-	20,832
	\$ 24,743,200	\$ 2,030,892	\$ 46,874	\$ 26,820,966

	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

See notes to financial statements.

Douglas A. Thom Clinic, Inc.

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 623,452	\$ 666,491
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	79,753	60,657
Net unrealized gain on investments	(20,388)	(6,527)
Loss on disposition of property and equipment	984	4,367
Reinvested interest and dividends on investments	(2,663)	(2,334)
Cash provided by operating activities before changes in assets and liabilities	<u>681,138</u>	722,654
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	620,148	(429,423)
Unbilled accounts receivable	(59,356)	(104,093)
Prepaid expenses	154,642	(62,052)
Deposits	(120)	(6,600)
Increase (decrease) in:		
Accounts payable	(164,074)	143,584
Accrued expenses	628,094	(33,547)
Net cash provided by operating activities	<u>1,860,472</u>	<u>230,523</u>
Cash flows from investing activities:		
Increase in cash surrender value of life insurance	(3,403)	(3,404)
Purchase of investments	(25,000)	(25,000)
Purchase of property and equipment	(92,427)	(151,171)
Net cash used in investing activities	<u>(120,830)</u>	<u>(179,575)</u>
Cash flows from financing activities:		
Payments on long-term debt	(16,851)	(111,820)
Net cash used in financing activities	<u>(16,851)</u>	<u>(111,820)</u>
Net increase (decrease) in cash and cash equivalents	1,722,791	(60,872)
Cash and cash equivalents, beginning of year	<u>649,657</u>	710,529
Cash and cash equivalents, end of year	<u>\$ 2,372,448</u>	<u>\$ 649,657</u>
Supplemental disclosure of cash flow information:		
Interest paid during the year	<u>\$ 25,056</u>	<u>\$ 30,897</u>
Income taxes paid during the year	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2011 and 2010

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 as of June 30, 2011 and 2010 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. As of June 30, 2011 and 2010, the Clinic had no permanently restricted net assets.

Program Service Fees and Reimbursements

The programs of the Clinic are supported principally by contracts negotiated with various agencies of the Commonwealth of Massachusetts. Therefore, the Clinic is subject to the regulations of the Massachusetts Operational Services Division. Revenue is being recorded by the individual programs either at the rates approved under negotiated contracts or the rate of reimbursement as certified by the Massachusetts Operational Services Division.

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Program Service Fees and Reimbursements...continued

Excess of revenue over expenses from the Commonwealth of Massachusetts supported programs, up to certain defined limits, can be utilized by the Clinic for expenditures in accordance with its exempt purpose, provided such expenditures are reimbursable under the Massachusetts Operational Services Division's regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment, and are reported as liabilities.

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.

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 as of June 30, 2011 and 2010. Conditional grants received in advance of the grant contributions being met are recorded as refundable advances.

Contributions

Contributions, including unconditional promises to give, are initially recognized as revenues at fair value in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value.

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 same year as received, the contribution and related investment income would be reported as unrestricted revenue. During the years ended June 30, 2011 and 2010, the Clinic received temporarily restricted contributions of \$2,500 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. As of June 30, 2011 and 2010, the allowance for doubtful accounts was \$249,749 and \$249,193, respectively.

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Unbilled Accounts Receivable

Revenues recognized in advance of billings are classified as unbilled accounts receivable on the accompanying statement of financial position. As of June 30, 2011 and 2010, the unbilled accounts receivable was \$374,738 and \$315,382, 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.

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 fiscal years before 2008.

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.

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Advertising

The Clinic's policy is to expense advertising costs as incurred.

Fair Value Measurements

Effective for the year ended June 30, 2011, the Clinic adopted Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*. This new accounting guidance under ASC 820, *Fair Value Measurements and Disclosures*, was issued by the FASB on January 21, 2010. The additional disclosures required about fair value measurements include, among other things, (a) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs, (b) the gross, rather than net, basis for certain Level 3 roll-forward information, (c) use of a "class" basis rather than a "major category" basis for assets and liabilities, and (d) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The following information incorporates these new disclosure requirements except for the Level 3 roll-forward information which is not required until the first quarter of 2011.

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Clinic uses various methods including market, income and cost approaches. Based on these approaches, the Clinic often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Clinic utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Clinic is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Fair Value Measurements...continued

The following is a description of the valuation methodologies used for instruments measured at fair value:

Equity Securities and Mutual Funds

The fair value of equity securities and mutual funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Certificate of Deposit

The certificate of deposit matures in February 2012 and is valued at cost plus accrued interest, which approximates fair value, and is categorized as Level 2.

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 June 30, 2011 and 2010, the Clinic does not have any non-financial assets or liabilities which are required to be at fair value.

Future Adoption of Accounting Standards

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in this update to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption of this guidance is not expected to have a material impact on the Clinic's financial statements.

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, 2011 and 2010

2. ACCOUNTS RECEIVABLE

The mix of receivables was as follows as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Third-party payors	\$ 2,057,817	\$ 2,299,689
Massachusetts Department of Public Health	1,642,377	1,889,551
Medicaid	849,497	969,029
Other	9,538	20,552
Allowance for doubtful accounts	<u>(249,749)</u>	<u>(249,193)</u>
	<u>\$ 4,309,480</u>	<u>\$ 4,929,628</u>

As of June 30, 2011 and 2010, the allowance for doubtful accounts was \$249,749 and \$249,193, respectively.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 434,308	\$ 346,802
Computer software	6,315	6,315
Building	820,597	820,597
Leasehold improvements	<u>97,477</u>	<u>97,477</u>
	1,358,697	1,271,191
Less - accumulated depreciation	<u>378,204</u>	<u>302,388</u>
Net property and equipment	<u>\$ 980,493</u>	<u>\$ 968,803</u>

4. INVESTMENTS

As of June 30, 2011 and 2010, investments are stated at fair value and consist of the following:

	<u>2011</u>			<u>2010</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds	\$ 143,932	\$ 156,183	\$ 12,251	\$ 116,269	\$ 104,941	\$ (11,328)
Certificate of deposit	12,477	14,797	2,320	12,477	14,603	2,126
Domestic preferred stock	1,000	1,000	-	1,000	1,000	-
Domestic common stock	<u>22,011</u>	<u>9,401</u>	<u>(12,610)</u>	<u>22,011</u>	<u>12,786</u>	<u>(9,225)</u>
	<u>\$ 179,420</u>	<u>\$ 181,381</u>	<u>\$ 1,961</u>	<u>\$ 151,757</u>	<u>\$ 133,330</u>	<u>\$ (18,427)</u>

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2011 and 2010

4. INVESTMENTS...continued

The following schedule summarizes the investment return in the statement of activities for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Net unrealized gain on investments	\$ 20,388	\$ 6,527
Investment income	<u>2,664</u>	<u>2,334</u>
Total investment gain	<u>\$ 23,052</u>	<u>\$ 8,861</u>

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

5. FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of June 30, 2011 and 2010 are as follows:

	<u>Total Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2011:				
Investments:				
Mutual funds				
World stock	\$ 89,553	\$ 89,553	\$ -	\$ -
Bond funds	34,325	34,325	-	-
Value funds	<u>32,305</u>	<u>32,305</u>	<u>-</u>	<u>-</u>
Total mutual funds	156,183	156,183	-	-
Certificate of deposit	14,797	-	14,797	-
Domestic preferred stock	1,000	1,000	-	-
Domestic common stocks	<u>9,401</u>	<u>9,401</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 181,381</u>	<u>\$ 166,584</u>	<u>\$ 14,797</u>	<u>\$ -</u>
June 30, 2010:				
Investments:				
Mutual funds:				
World stock	\$ 56,912	\$ 56,912	\$ -	\$ -
Bond funds	27,619	27,619	-	-
Value funds	<u>20,410</u>	<u>20,410</u>	<u>-</u>	<u>-</u>
Total mutual funds	104,941	104,941	-	-
Certificate of deposit	14,603	-	14,603	-
Domestic preferred stock	1,000	1,000	-	-
Domestic common stocks	<u>12,786</u>	<u>12,786</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 133,330</u>	<u>\$ 118,727</u>	<u>\$ 14,603</u>	<u>\$ -</u>

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2011 and 2010

6. 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% as of June 30, 2011). The line is collateralized by substantially all assets of the Clinic. The line will expire on January 10, 2012. There were no borrowings outstanding under the agreement as of June 30, 2011 and 2010.

7. 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:

2012	\$ 17,937
2013	19,094
2014	20,326
2015	21,636
2016	23,032
Thereafter	<u>279,653</u>
	<u>\$ 381,678</u>

8. 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, 2011 and 2010 was \$96,067 and \$110,904, 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. As of June 30, 2011 and 2010, the related deferred compensation asset and liability were approximately \$152,000 and \$102,000, respectively, and are included in investments and accrued expenses, in the statements of financial position.

9. COMMITMENTS

The Clinic leases facilities for certain locations under operating leases expiring on various dates through June, 2015. The Clinic also leases certain office equipment under operating leases expiring through June 2015. Rent expense under the aggregate leases was \$787,745 and \$763,508 for the years ended June 30, 2011 and 2010, respectively.

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements
Years Ended June 30, 2011 and 2010

9. COMMITMENTS...continued

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

2012	\$ 804,000
2013	645,000
2014	507,000
2015	<u>73,000</u>
	<u>\$ 2,029,000</u>

10. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2011 and 2010, 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, 2011 and 2010 was approximately \$13,900 and \$16,300, respectively. In addition, one of the members of the Board of Directors is an insurance broker who provides products and services to the Clinic.

11. 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, 2011 and 2010, program service fees earned from this program were approximately \$4,100,000 and \$5,300,000, respectively, representing approximately 15% and 20% of total program service fees and reimbursements.

12. TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2011 and 2010, the Clinic had \$119,006 and \$117,558, respectively, in temporarily restricted net assets. These assets consist of donations and income earned on such donations received from two Clinic locations that are restricted for the purpose of covering expenses relating to the continuing education and training of employees.

13. NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended June 30, 2011 and 2010, the Clinic released net assets from restriction totaling \$1,437 and \$1,841, respectively, for expenditures related to the cost of continuing education and training of employees.

14. SUBSEQUENT EVENTS

As of July 1, 2011, the Clinic opened a new early intervention program location in Shrewsbury, MA. This location provides the same services as its other nine program locations. The Clinic also has facility and office leases for the new location which have been included in the future minimum annual rentals in Note 9.

The Clinic has evaluated subsequent events through October 17, 2011, the date on which the financial statements were available to be issued.