

# Douglas A. Thom Clinic, Inc.

Financial Statements

Years Ended June 30, 2014 and 2013

# Douglas A. Thom Clinic, Inc.

## FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Douglas A. Thom Clinic, Inc (the "Clinic") which comprise the statements of financial position as of June 30, 2014 and 2013, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clinic as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*McGladrey LLP*

Boston, Massachusetts  
October 17, 2014

# Douglas A. Thom Clinic, Inc.

Statements of Financial Position  
June 30, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,929,753	\$ 289,792
Cash and cash equivalents - restricted for use	118,923	119,270
Accounts receivable, net of allowance for doubtful accounts	7,395,240	7,539,699
Unbilled accounts receivable	341,950	487,895
Pledges receivable - current	33,333	-
Investments	-	35,556
Prepaid expenses	139,973	105,977
Total current assets	<u>9,959,172</u>	<u>8,578,189</u>
Property and equipment, net of accumulated depreciation	<u>1,133,127</u>	<u>1,138,827</u>
Other assets:		
Pledges receivable, net of current portion	33,334	-
Investments	375,719	251,284
Cash surrender value of life insurance	46,664	43,260
Deposits	50,416	53,500
Total other assets	<u>506,133</u>	<u>348,044</u>
Total assets	<u>\$ 11,598,432</u>	<u>\$ 10,065,060</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Line of credit	\$ -	\$ 400,000
Accounts payable	976,380	686,947
Accrued expenses	1,706,260	874,660
Deferred revenue	69,155	63,100
Current portion of long-term debt	40,054	23,411
Total current liabilities	<u>2,791,849</u>	<u>2,048,118</u>
Long term liabilities:		
Deferred compensation	338,679	251,284
Long-term debt, net of current portion	121,112	127,097
Total long term liabilities	<u>459,791</u>	<u>378,381</u>
Net assets:		
Unrestricted	8,161,202	7,519,291
Temporarily restricted	185,590	119,270
Total net assets	<u>8,346,792</u>	<u>7,638,561</u>
Total liabilities and net assets	<u>\$ 11,598,432</u>	<u>\$ 10,065,060</u>

See notes to financial statements.

# Douglas A. Thom Clinic, Inc.

## Statements of Activities

Years Ended June 30, 2014 and 2013

	<b>2014</b>	2013
Changes in unrestricted net assets:		
Revenues and other support:		
Program service fees and reimbursements	<b>\$ 41,265,070</b>	\$ 37,847,825
Billing and support services	<b>190,671</b>	196,499
Grants and contributions	<b>161,145</b>	127,252
Interest income	<b>22,169</b>	7,982
Net assets released from restriction	<b>645</b>	279
Total revenues and other support	<b>41,639,700</b>	38,179,837
Expenses:		
Program services	<b>38,295,398</b>	35,150,552
Management and general	<b>2,678,796</b>	2,462,344
Fundraising	<b>70,232</b>	63,372
Total expenses	<b>41,044,426</b>	37,676,268
Increase in unrestricted net assets before net unrealized gain on investments	<b>595,274</b>	503,569
Net unrealized gain on investments	<b>46,637</b>	30,745
Increase in unrestricted net assets	<b>641,911</b>	534,314
Changes in temporarily restricted net assets:		
Interest income	<b>298</b>	318
Contributions	<b>66,667</b>	-
Net assets released from restriction	<b>(645)</b>	(279)
Increase in temporarily restricted net assets	<b>66,320</b>	39
Increase in net assets	<b>708,231</b>	534,353
Net assets, beginning of year	<b>7,638,561</b>	7,104,208
Net assets, end of year	<b>\$ 8,346,792</b>	\$ 7,638,561

See notes to financial statements.

## Douglas A. Thom Clinic, Inc.

Statements of Functional Expenses  
Years Ended June 30, 2014 and 2013

	2014			
	Program Services	Management and General	Fundraising	Total
Salaries, wages, payroll taxes and fringe benefits	\$ 31,057,974	\$ 1,836,981	\$ 63,200	\$ 32,958,155
Occupancy	1,045,549	280,375	4,773	1,330,697
Office supplies and purchased services	810,447	340,037	2,183	1,152,667
Travel reimbursement	951,016	4,430	76	955,522
Contracted professional fees	4,264,300	-	-	4,264,300
Staff training	123,655	-	-	123,655
Professional fees	-	84,935	-	84,935
Depreciation	24,920	121,538	-	146,458
Interest expense	1,185	9,759	-	10,944
Meals	16,352	741	-	17,093
	<b>\$ 38,295,398</b>	<b>\$ 2,678,796</b>	<b>\$ 70,232</b>	<b>\$ 41,044,426</b>
	2013			
	Program Services	Management and General	Fundraising	Total
Salaries, wages, payroll taxes and fringe benefits	\$ 28,644,462	\$ 1,691,553	\$ 57,429	\$ 30,393,444
Occupancy	958,007	234,916	3,983	1,196,906
Office supplies and purchased services	684,410	316,784	1,932	1,003,126
Travel reimbursement	850,749	1,641	28	852,418
Contracted professional fees	3,854,491	-	-	3,854,491
Staff training	120,935	-	-	120,935
Professional fees	-	116,328	-	116,328
Depreciation	18,028	91,778	-	109,806
Interest expense	61	9,045	-	9,106
Meals	19,409	299	-	19,708
	<b>\$ 35,150,552</b>	<b>\$ 2,462,344</b>	<b>\$ 63,372</b>	<b>\$ 37,676,268</b>

See notes to financial statements.

# Douglas A. Thom Clinic, Inc.

## Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 708,231	\$ 534,353
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	146,458	109,806
Net unrealized gain investments	(46,637)	(30,745)
Reinvested interest and dividends on investments	(4,742)	(1,044)
Net cash provided by operating activities before changes in assets and liabilities	803,310	612,370
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	144,459	(2,303,722)
Unbilled accounts receivable	145,945	135,934
Pledges receivable	(66,667)	-
Prepaid expenses	(33,996)	(7,322)
Deposits	3,084	(10,486)
Increase (decrease) in:		
Accounts payable	289,433	417,916
Accrued expenses	831,600	(424,161)
Deferred revenue	6,055	7,243
Deferred compensation	87,395	66,658
Net cash provided by (used in) operating activities	2,210,618	(1,505,570)
Cash flows from investing activities:		
Increase in cash surrender value of life insurance	(3,404)	(3,401)
Purchase of investments	(37,500)	(40,000)
Purchase of property and equipment	(140,758)	(264,857)
Net cash used in investing activities	(181,662)	(308,258)
Cash flows from financing activities:		
Decrease (Increase) in restricted cash	347	(239)
Net (payments) proceeds from line of credit	(400,000)	400,000
Proceeds from long-term debt	36,254	150,508
Payments on long-term debt	(25,596)	(54,953)
Net cash (used in) provided by financing activities	(388,995)	495,316
Net increase (decrease) in cash and cash equivalents	1,639,961	(1,318,512)
Cash and cash equivalents, beginning of year	289,792	1,608,304
Cash and cash equivalents, end of year	\$ 1,929,753	\$ 289,792
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the year	\$ 10,944	\$ 9,106

See notes to financial statements.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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## 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, Worcester, 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, statements of functional expenses and statements of 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").

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, 2014 consist of funds donated for educational activities as well as a pledge receivable restricted by time which will be paid out over the next two years. As of June 30, 2013, temporarily restricted net assets consisted of funds donated for educational activities and are recorded on the statements of financial position as cash and cash equivalents restricted for use.

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, 2014 and 2013, the Clinic had no permanently restricted net assets.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

### 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.

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 ("MA OSD") regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment, and are reported as liabilities. During the year ended June 30, 2013, the Clinic obtained a waiver from MA OSD for amounts in excess of the stated limits. For the year ended June 30, 2014 the Clinic did not have an excess of revenues over the stated limits. As such, no liability has been recorded for the years ended June 30, 2014 and 2013.

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 earned 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, 2014 and 2013. Grants received from foundations which are unconditional promises to give are recorded as temporarily restricted contributions.

### 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 would be reported as unrestricted revenue.

### Cash and Cash Equivalents

For purposes of the statements 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.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

### 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.

### Unbilled Accounts Receivable

Revenues recognized in advance of billings are classified as unbilled accounts receivable on the accompanying statement of financial position.

### 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 statements 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 statements 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 recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management evaluated the Clinic's tax positions and concluded that the Clinic had no material uncertainties in income taxes as of June 30, 2014 and June 30, 2013. The Clinic is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years before 2011. The Clinic will account for interest and penalties related to uncertain tax positions, if any, as a part of tax expense.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements  
Years Ended June 30, 2014 and 2013

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

### 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.

### Advertising

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

### Fair Value Measurements

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 the market approach. 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.

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. The Clinic has various processes and controls in place to ensure that fair value is reasonably estimated.

While the Clinic believes its valuation methods are 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 estimate of fair value at the reporting date. During the years ended June 30, 2014 and June 30, 2013, there were no changes to the Clinic's valuation techniques that had, or are expected to have, a material impact on its financial position or change in net assets.

# Douglas A. Thom Clinic, Inc.

Notes to Financial Statements  
Years Ended June 30, 2014 and 2013

## 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.

The Clinic follows the guidance in FASB ASC 820 for nonfinancial assets or nonfinancial liabilities that are recorded or disclosed at fair value on a non-recurring basis. As of June 30, 2014 and 2013, the Clinic does not have any non-financial assets or liabilities which are required to be at fair value.

#### 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 of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

#### Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the classifications used in 2014.

## 2. ACCOUNTS RECEIVABLE

The mix of billed receivables was as follows as of June 30:

	<u>2014</u>	<u>2013</u>
Third-party payors	\$ 3,842,412	\$ 3,126,209
Massachusetts Department of Public Health	2,885,036	3,089,321
Medicaid	1,072,100	1,616,086
Other	<u>10,897</u>	<u>16,829</u>
	7,810,445	7,848,445
Allowance for doubtful accounts	<u>(415,205)</u>	<u>(308,746)</u>
Accounts receivable, net	<u>\$ 7,395,240</u>	<u>\$ 7,539,699</u>

The mix of unbilled receivables was as follows as of June 30:

	<u>2014</u>	<u>2013</u>
Third-party payors	\$ 223,582	\$ 285,975
Massachusetts Department of Public Health	12,334	53,254
Medicaid	106,034	148,225
Other	<u>-</u>	<u>441</u>
Unbilled accounts receivable	<u>\$ 341,950</u>	<u>\$ 487,895</u>

## Douglas A. Thom Clinic, Inc.

Notes to Financial Statements  
Years Ended June 30, 2014 and 2013

### 3. PLEDGES RECEIVABLE

Pledges receivable include unconditional promises to be collected in:

	<u>2014</u>	<u>2013</u>
One year or less	\$ 33,333	\$ -
One to two years	<u>33,334</u>	<u>-</u>
	<u>\$ 66,667</u>	<u>\$ -</u>

### 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 564,294	\$ 551,647
Computer software	18,499	6,315
Building	820,597	820,597
Leasehold improvements	<u>445,928</u>	<u>330,001</u>
	1,849,318	1,708,560
Less - accumulated depreciation	<u>716,191</u>	<u>569,733</u>
Net property and equipment	<u>\$ 1,133,127</u>	<u>\$ 1,138,827</u>

### 5. INVESTMENTS

Investments are stated at fair value and consist of the following at June 30:

	<u>2014</u>			<u>2013</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	\$ 262,535	\$ 343,757	\$ 81,222	\$ 220,293	\$ 255,690	\$ 35,397
Certificate of deposit	12,477	15,122	2,645	12,477	15,039	2,562
Domestic equities	<u>23,011</u>	<u>16,840</u>	<u>(6,171)</u>	<u>23,011</u>	<u>16,111</u>	<u>(6,900)</u>
	<u>\$ 298,023</u>	<u>\$ 375,719</u>	<u>\$ 77,696</u>	<u>\$ 255,781</u>	<u>\$ 286,840</u>	<u>\$ 31,059</u>

The following schedule summarizes the investment return in the statements of activities for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Net unrealized gain (loss) on investments	\$ 46,637	\$ 30,745
Investment income	<u>4,742</u>	<u>1,044</u>
Total investment gain	<u>\$ 51,379</u>	<u>\$ 31,789</u>

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, 2014 and 2013

### 6. FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis, by level, within the fair value hierarchy are as follows at June 30:

<u>2014</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds:				
World stock	\$ 206,799	\$ 206,799	\$ -	\$ -
Bond funds	59,500	59,500	-	-
Value funds	<u>77,458</u>	<u>77,458</u>	-	-
Total mutual funds	343,757	343,757	-	-
Domestic equities	<u>16,840</u>	<u>16,840</u>	-	-
	<u>\$ 360,597</u>	<u>\$ 360,597</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>2013</u>				
Investments:				
Mutual funds:				
World stock	\$ 146,225	\$ 146,225	\$ -	\$ -
Bond funds	51,036	51,036	-	-
Value funds	<u>58,429</u>	<u>58,429</u>	-	-
Total mutual funds	255,690	255,690	-	-
Domestic equities	<u>16,111</u>	<u>16,111</u>	-	-
	<u>\$ 271,801</u>	<u>\$ 271,801</u>	<u>\$ -</u>	<u>\$ -</u>

### 7. LINE OF CREDIT

The Clinic has a line of credit agreement with a financial institution. Borrowings against the line of credit are limited to the lesser of \$1,800,000 or 50% of 0 - 60 day accounts receivable. As of June 30, 2014 and 2013 all borrowings are due on demand and bear interest at prime plus 1% (4.25%). The line is collateralized by substantially all assets of the Clinic. The line will expire on May 1, 2015. There were no borrowings as of June 30, 2014 and \$400,000 outstanding under the agreement as of June 30, 2013.

### 8. 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 was scheduled to mature in March 2028 and the Clinic was required to make monthly payments of principal and interest of \$3,447, paid in arrears. The loan incurred interest at a stated rate of 6.18% per annum for the first ten years. Thereafter, the Clinic was to 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 was secured by all business assets of the Clinic. This loan was paid in full during the year ended June 30, 2013.

## Douglas A. Thom Clinic, Inc.

Notes to Financial Statements  
Years Ended June 30, 2014 and 2013

### 8. LONG-TERM DEBT...continued

During the year ended June 30, 2013, the Clinic secured a term loan with the same financial institution with a maximum obligation of \$300,000 in connection with leasehold improvements. The Clinic received advances for the loan through November 2013, with the final obligation amounting to \$186,762. The loan matures in May 2018 and accrues interest at a rate of 5%. The loan required interest only payments through November 2013. For the months of December 2013 through May 2018, principle and interest will be amortized on the outstanding balance. The outstanding balance on the term loan as of June 30, 2014 and June 30, 2013 was \$161,166 and \$150,508, respectively.

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

2015	\$ 40,054
2016	42,114
2017	44,306
2018	<u>34,692</u>
	<u>\$ 161,166</u>

### 9. 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, 2014 and 2013 was \$144,338 and \$125,791, respectively.

The Clinic has a deferred compensation plan under Section 457(b) of the Internal Revenue Code, which covers selected key members of 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, 2014 and 2013, the related deferred compensation asset and liability were \$338,679 and \$251,284, respectively, and are included in the statements of financial position.

### 10. COMMITMENTS

The Clinic leases facilities for certain locations under operating leases expiring on various dates through June 2020. The Clinic also leases certain office equipment under operating leases expiring through June 2018. Rent expense under the aggregate leases was \$948,468 and \$878,715 for the years ended June 30, 2014 and 2013, respectively.

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

2015	\$ 949,000
2016	835,000
2017	657,000
2018	615,000
2019	424,000
Thereafter	<u>77,000</u>
	<u>\$ 3,557,000</u>

## Douglas A. Thom Clinic, Inc.

Notes to Financial Statements  
Years Ended June 30, 2014 and 2013

### 11. RELATED PARTY TRANSACTIONS

A member of the Board of Directors is an insurance broker who provided products and services to the Clinic during the years ended June 30, 2014 and 2013.

### 12. 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, 2014 and 2013, program service fees earned from this program were approximately \$7,200,000 and \$7,900,000, respectively, representing approximately 17% and 21%, respectively, of total program service fees and reimbursements.

### 13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
<u>Purpose</u>		
Continuing education and training	\$ 118,923	\$ 119,270
<u>Time</u>		
Pledges receivable	<u>66,667</u>	<u>-</u>
	<u>\$ 185,590</u>	<u>\$ 119,270</u>

### 14. NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended June 30, 2014 and 2013, the Clinic released net assets from restriction totaling \$645 and \$279, respectively, for expenditures related to the cost of continuing education and training of employees.

### 15. SUBSEQUENT EVENTS

The Clinic evaluated subsequent events through October 17, 2014, when the financial statements were available to be issued.