

Douglas A. Thom Clinic, Inc.

Financial Statements
June 30, 2016 and 2015

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RSM US LLP

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, 2016 and 2015, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements (collectively, 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 from 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, 2016 and 2015, 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.

RSM US LLP

Boston, Massachusetts
October 26, 2016

Douglas A. Thom Clinic, Inc.

**Statements of Financial Position
June 30, 2016 and 2015**

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,310,597	\$ 3,288,846
Accounts receivable, net of allowance for doubtful accounts	8,028,179	7,524,904
Unbilled accounts receivable	1,103,736	651,508
Pledges receivable - current	-	33,334
Investments	438,640	187,934
Prepaid expenses	104,098	120,989
Total current assets	<u>12,985,250</u>	<u>11,807,515</u>
Property and equipment, net of accumulated depreciation	<u>907,368</u>	<u>1,030,383</u>
Other assets:		
Investments	15,289	239,053
Cash surrender value of life insurance	53,471	50,067
Deposits	50,176	53,068
Total other assets	<u>118,936</u>	<u>342,188</u>
Total assets	<u>\$ 14,011,554</u>	<u>\$ 13,180,086</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 692,312	\$ 802,100
Accrued expenses	2,173,277	2,320,661
Deferred revenue	757,891	512,209
Current portion of long-term debt	44,306	42,114
Deferred compensation	413,374	148,622
Total current liabilities	<u>4,081,160</u>	<u>3,825,706</u>
Long term liabilities:		
Deferred compensation	-	239,053
Long-term debt, net of current portion	34,725	79,016
Total long term liabilities	<u>34,725</u>	<u>318,069</u>
Net assets:		
Unrestricted	9,778,290	8,884,587
Temporarily restricted	117,379	151,724
Total net assets	<u>9,895,669</u>	<u>9,036,311</u>
Total liabilities and net assets	<u>\$ 14,011,554</u>	<u>\$ 13,180,086</u>

See notes to financial statements.

Douglas A. Thom Clinic, Inc.

Statements of Activities

Years Ended June 30, 2016 and 2015

	2016	2015
Changes in unrestricted net assets:		
Revenues and other support:		
Program service fees and reimbursements	\$ 48,648,285	\$ 45,841,549
Billing and support services	213,181	201,607
Grants and contributions	108,538	111,267
Interest income	15,997	10,716
Net assets released from restriction	34,634	34,163
Total revenues and other support	49,020,635	46,199,302
Expenses:		
Program services	45,056,284	42,634,834
Management and general	2,983,451	2,765,563
Fundraising	85,013	76,656
Total expenses	48,124,748	45,477,053
Increase in unrestricted net assets before net unrealized gain (loss) on investments	895,887	722,249
Net unrealized gain (loss) on investments	(2,184)	1,136
Increase in unrestricted net assets	893,703	723,385
Changes in temporarily restricted net assets:		
Interest income	289	297
Net assets released from restriction	(34,634)	(34,163)
Decrease in temporarily restricted net assets	(34,345)	(33,866)
Change in net assets	859,358	689,519
Net assets, beginning of year	9,036,311	8,346,792
Net assets, end of year	\$ 9,895,669	\$ 9,036,311

See notes to financial statements.

Douglas A. Thom Clinic, Inc.

Statements of Functional Expenses
Years Ended June 30, 2016 and 2015

	2016			
	Program Services	Management and General	Fundraising	Total
Salaries, wages, payroll taxes and fringe benefits	\$ 35,880,894	\$ 1,979,587	\$ 76,433	\$ 37,936,914
Occupancy	1,171,645	279,139	5,329	1,456,113
Office supplies and purchased services	780,789	474,404	3,103	1,258,296
Travel reimbursement	990,831	7,745	148	998,724
Contracted professional fees	6,049,823	-	-	6,049,823
Staff training	122,770	-	-	122,770
Professional fees	-	137,936	-	137,936
Depreciation	28,548	99,332	-	127,880
Interest expense	595	5,308	-	5,903
Meals	30,389	-	-	30,389
	\$ 45,056,284	\$ 2,983,451	\$ 85,013	\$ 48,124,748

	2015			
	Program Services	Management and General	Fundraising	Total
Salaries, wages, payroll taxes and fringe benefits	\$ 34,602,152	\$ 1,914,237	\$ 69,556	\$ 36,585,945
Occupancy	1,165,742	266,763	4,899	1,437,404
Office supplies and purchased services	822,334	357,120	2,157	1,181,611
Travel reimbursement	983,905	2,374	44	986,323
Contracted professional fees	4,890,247	-	-	4,890,247
Staff training	117,375	-	-	117,375
Professional fees	-	99,340	-	99,340
Depreciation	29,812	118,458	-	148,270
Interest expense	962	7,271	-	8,233
Meals	22,305	-	-	22,305
	\$ 42,634,834	\$ 2,765,563	\$ 76,656	\$ 45,477,053

See notes to financial statements.

Douglas A. Thom Clinic, Inc.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 859,358	\$ 689,519
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	127,880	148,270
Net unrealized loss (gain) on investments	2,184	(1,136)
Reinvested interest and dividends on investments	(5,125)	(4,632)
Net cash provided by operating activities before changes in assets and liabilities	<u>984,297</u>	832,021
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(503,275)	(129,664)
Unbilled accounts receivable	(452,228)	(309,558)
Pledges receivable	33,334	33,333
Prepaid expenses	16,891	18,984
Deposits	2,892	(2,652)
Increase (decrease) in:		
Accounts payable	(109,788)	263,836
Accrued expenses	(147,384)	614,401
Deferred revenue	245,682	4,938
Deferred compensation	25,699	48,996
Net cash provided by operating activities	<u>96,120</u>	1,374,635
Cash flows from investing activities:		
Increase in cash surrender value of life insurance	(3,404)	(3,403)
Purchase of investments	(24,000)	(45,500)
Purchase of property and equipment	(4,866)	(45,526)
Net cash used in investing activities	<u>(32,270)</u>	(94,429)
Cash flows from financing activities:		
Payments on long-term debt	(42,099)	(40,036)
Net cash used in financing activities	<u>(42,099)</u>	(40,036)
Net increase in cash and cash equivalents	21,751	1,240,170
Cash and cash equivalents, beginning of year	<u>3,288,846</u>	2,048,676
Cash and cash equivalents, end of year	<u>\$ 3,310,597</u>	<u>\$ 3,288,846</u>
Supplemental disclosure of cash flow information:		
Interest paid during the year	<u>\$ 5,903</u>	<u>\$ 8,233</u>

See notes to financial statements.

Notes to Financial Statements

Note 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, activities, functional expenses 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").

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, 2016 consists of funds donated for educational activities. Temporarily restricted net assets as of June 30, 2015 consists of funds donated for educational activities as well as a pledge receivable restricted by time which was collected during the year ended June 30, 2016.

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, 2016 and 2015, the Clinic had no permanently restricted net assets.

Reclassification: Certain prior period amounts may have been reclassified to conform to the current period presentation.

Program service fees and reimbursements: The Clinic recognizes revenue when there is persuasive evidence of an arrangement, services have been rendered, the fee is fixed or determinable, and collectability is reasonably assured.

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 when the related services have been performed.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (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 ("MA OSD") regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment, and are reported as liabilities. For the years ended June 30, 2016 and 2015, 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, 2016 and 2015.

The Clinic has agreements with third-party payors that provide for payments to the Clinic based on predetermined rates. 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 unless otherwise restricted by the donor. 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 contribution restrictions were met and released in the same year as received, the contribution would be reported as unrestricted revenue.

Concentration of support: During the years ended June 30, 2016 and 2015 the Clinic received approximately 21 percent and 22 percent, and 20 percent and 22 percent, respectively, of its total revenues from two payors.

Cash and cash equivalents: For purposes of the statements of cash flows, the Clinic considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Included in cash are funds restricted by donors for specified uses. As of June 30, 2016 and 2015, the total of cash restricted for use is \$117,379 and \$118,390, respectively.

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. A trade receivable is generally considered past due if any portion is outstanding for more than sixty days; however, accounts involving third party insurance companies and public agencies are often normally collectible beyond that normal limit.

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.

Notes to Financial Statements

Note 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 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, 2016 and June 30, 2015. The Clinic is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years before 2013. The Clinic will account for interest and penalties related to uncertain tax positions, if any, as a part of tax expense.

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.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2016 and June 30, 2015, 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.

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, 2016 and 2015, 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.

Recently issued accounting pronouncements: In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. The Clinic has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Clinic is currently evaluating the effect that the updated standard will have on the financial statements.

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Clinic is currently evaluating the effect that the updated standard will have on the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force)*. To reduce diversity in practice, the ASU provides solutions for eight specific statement of cash flow classification issues. The ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Clinic is currently evaluating the effect that the updated standard will have on the financial statements.

Note 2. Accounts Receivable

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

	2016	2015
Third-party payors	\$ 4,030,728	\$ 3,881,800
Massachusetts Department of Public Health	2,523,142	2,704,380
Medicaid	2,569,626	1,343,031
Other	38,173	16,948
	9,161,669	7,946,159
Allowance for doubtful accounts	(1,133,490)	(421,255)
Accounts receivable, net	<u>\$ 8,028,179</u>	<u>\$ 7,524,904</u>

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

	2016	2015
Third-party payors	\$ 701,102	\$ 425,208
Massachusetts Department of Public Health	90,566	44,546
Medicaid	312,068	181,754
Unbilled accounts receivable	<u>\$ 1,103,736</u>	<u>\$ 651,508</u>

Note 3. Pledges Receivable

Pledges receivable include unconditional promises to be collected in:

	2016	2015
One year or less	<u>\$ -</u>	<u>\$ 33,334</u>

Douglas A. Thom Clinic, Inc.**Notes to Financial Statements****Note 4. Property and Equipment**

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

	2016	2015
Furniture and equipment	\$ 481,801	\$ 600,372
Computer software	12,184	18,499
Building	820,597	820,597
Leasehold improvements	448,936	455,376
	<u>1,763,518</u>	<u>1,894,844</u>
Less - accumulated depreciation	856,150	864,461
Net property and equipment	<u>\$ 907,368</u>	<u>\$ 1,030,383</u>

Note 5. Investments

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

	2016			2015		
	Cost	Fair Value	Unrealized Gain (Loss)	Cost	Fair Value	Unrealized Gain (Loss)
Mutual funds	\$ 341,794	\$ 418,495	\$ 76,701	\$ 312,668	\$ 392,908	\$ 80,240
Certificate of deposit	12,477	15,289	2,812	12,477	15,205	2,728
Domestic equities	23,011	20,145	(2,866)	23,011	18,874	(4,137)
	<u>\$ 377,282</u>	<u>\$ 453,929</u>	<u>\$ 76,647</u>	<u>\$ 348,156</u>	<u>\$ 426,987</u>	<u>\$ 78,831</u>

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

	2016	2015
Net unrealized gain (loss) on investments	\$ (2,184)	\$ 1,136
Investment income	5,125	4,633
Total investment return	<u>\$ 2,941</u>	<u>\$ 5,769</u>

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

Note 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:

2016	Total	Level 1	Level 2	Level 3
Investments:				
Mutual funds:				
World stock	\$ 248,555	\$ 248,555	\$ -	\$ -
Bond funds	74,196	74,196	-	-
Value funds	95,744	95,744	-	-
Total mutual funds	<u>418,495</u>	<u>418,495</u>	-	-
Domestic equities	20,145	20,145	-	-
	<u>\$ 438,640</u>	<u>\$ 438,640</u>	<u>\$ -</u>	<u>\$ -</u>

Douglas A. Thom Clinic, Inc.**Notes to Financial Statements****Note 6. Fair Value Measurements (Continued)**

2015	Total	Level 1	Level 2	Level 3
Investments:				
Mutual funds:				
World stock	\$ 242,302	\$ 242,302	\$ -	\$ -
Bond funds	65,502	65,502	-	-
Value funds	85,104	85,104	-	-
Total mutual funds	392,908	392,908	-	-
Domestic equities	18,874	18,874	-	-
	<u>\$ 411,782</u>	<u>\$ 411,782</u>	<u>\$ -</u>	<u>\$ -</u>

Note 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, 2016 and 2015 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 was renewed in May 2016, and expires on April 29, 2017. There were no borrowings outstanding as of June 30, 2016 and 2015.

Note 8. Long-Term Debt

During the year ended June 30, 2013, the Clinic secured a term loan with the same financial institution as the line of credit 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, 2016 and June 30, 2015 was \$79,031 and \$121,130, respectively.

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

2017	\$ 44,306
2018	<u>34,725</u>
	<u>\$ 79,031</u>

Note 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, 2016 and 2015 was \$170,321 and \$163,532, 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, 2016 and 2015, the related deferred compensation asset and liability were \$413,374 and \$387,675, respectively, and are included in the statements of financial position.

Douglas A. Thom Clinic, Inc.

Notes to Financial Statements

Note 10. Commitments

The Clinic leases facilities for certain locations under operating leases expiring on various dates through June 2021. The Clinic also leases certain office equipment under operating leases expiring through June 2021. Rent expense under the aggregate leases was \$1,032,846 and \$1,029,264 for the years ended June 30, 2016 and 2015, respectively.

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

2017	\$ 1,054,000
2018	971,000
2019	655,000
2020	232,000
Thereafter	<u>138,000</u>
	<u>\$ 3,050,000</u>

Note 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, 2016 and 2015.

Note 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, 2016 and 2015, program service fees earned from this program were approximately \$8,200,000 and \$6,900,000, respectively, representing approximately 17% and 15% of total program service fees and reimbursements.

Note 13. Temporarily Restricted Net Assets

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

	2016	2015
<u>Purpose</u>		
Continuing education and training	\$ 117,379	\$ 118,390
<u>Time</u>		
Pledges receivable	-	33,334
	<u>\$ 117,379</u>	<u>\$ 151,724</u>

Note 14. Net Assets Released from Restrictions

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

	2016	2015
<u>Purpose</u>		
Continuing education and training	\$ 1,300	\$ 830
<u>Time</u>		
Pledges receivable	33,334	33,333
	<u>\$ 34,634</u>	<u>\$ 34,163</u>

Note 15. Subsequent Events

The Clinic evaluated subsequent events through October 26, 2016, when the financial statements were available to be issued.