

THUNDERMIST HEALTH CENTER, INC.
AND RELATED ENTITIES

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2012
WITH
REPORT OF INDEPENDENT AUDITORS**

Thundermist Health Center, Inc. and Related Entities
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Thundermist Health Center, Inc. and Related Entities

**Introduction
August 31, 2012**

Background

Thundermist Health Center, Inc. (the "Center") provides healthcare services to individuals primarily located in Woonsocket, Wakefield and West Warwick, Rhode Island. The Center provides a broad range of health services to a largely medically underserved population.

Thundermist Foundation, Inc.'s (the "Foundation") primary function is to support the mission of the Center. The Foundation exists to increase public awareness of the Center and to raise donations and make expenditures to support the Center's mission.

THC Development Company, LLC is a for-profit entity established to recognize the developers' fee that is earned on the property developed and owned by THC Landlord, LLC.

THC Manager, LLC is a for-profit entity that owns 90% of THC Landlord, LLC and 0.01% of THC-MT, LLC. THC Manager, LLC acts as the managing member for both Companies.

THC Landlord, LLC is a for-profit entity that owns the building located in West Warwick, Rhode Island. All activity to rehabilitate this building for historical tax credits is recorded in this entity's general ledger. Thundermist Health Center, Inc. owns 5% of this entity and is identified as the limited member of this LLC.

Scope of Audit

The financial audit of the Center, the Foundation, THC Landlord, LLC, THC Manager, LLC and THC Development Company, LLC (collectively "Thundermist") was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The audit covered the year ended August 31, 2012 and fieldwork was performed during the period from October 22, 2012 to December 31, 2012.

The following were the principal objectives of the organization-wide audit:

- The expression of an opinion on the consolidated statement of financial position as of August 31, 2012, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended;
- The expression of an opinion on the Schedule of Expenditures of Federal Awards for the year ended August 31, 2012;
- The assessment of Thundermist's internal accounting and administrative control structures;
- The performance of cost validations of transaction costs on a test basis;
- The assessment, on a test basis, of Thundermist's compliance with the prescribed U.S. Department of Health and Human Services cost principles (45 CFR 74, as amended, subpart Q) for selected functional types of costs;
- To ascertain whether costs claimed for funding under specific grants are fairly presented in conformity with the terms of the grant and related U.S. Department of Health and Human Services cost principles.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Thundermist Health Center, Inc. and Related Entities

We have audited the accompanying consolidated statement of financial position of Thundermist Health Center, Inc. and Related Entities (collectively "Thundermist") as of August 31, 2012, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes 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 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Thundermist as of August 31, 2012 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2013 on our consideration of Thundermist's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule of operations by federal program – Thundermist Health Center, Inc., and the consolidating statements, on page 18-22, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Thundermist Health Center, Inc. and Related Entities

Consolidated Statement of Financial Position

August 31, 2012

<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 2,325,636
Investment	100
Patient services receivable, net	1,159,842
DHHS grants receivable	587,540
Contracts receivable	127,944
Prepaid expenses and other	567,422
Total current assets	<u>4,768,484</u>
Property, plant and equipment, net	<u>14,225,218</u>
Total assets	<u>\$ 18,993,702</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 1,245,964
Accrued compensation	1,353,455
Current maturities of bonds payable	206,750
Total current liabilities	<u>2,806,169</u>
Long-Term Liabilities:	
Bonds payable, less current maturities	<u>3,514,750</u>
Total liabilities	<u>6,320,919</u>
Net Assets and Members' Equity:	
Non-controlling interest	(2,695)
Members' equity	726,461
Temporarily restricted net assets	200,522
Unrestricted net assets	
Investment in property, plant and equipment, net of related debt	4,605,194
Undesignated	7,143,301
Total net assets and members' equity	<u>12,672,783</u>
Total liabilities, net assets and members' equity	<u>\$ 18,993,702</u>

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

Thundermist Health Center, Inc. and Related Entities

Consolidated Statement of Activities Year Ended August 31, 2012

Changes in unrestricted net assets:

Public Revenue and Support:

DHHS grants	\$ 3,970,867
Patient services, net	18,466,669
Contract services	3,198,934
Contributions	243,773
Rental income	506,749
Fund-raising	145,674
Other	261,561
Total unrestricted public revenue and support	<u>26,794,227</u>

Net assets released from restrictions:

Contributions satisfied by use of funds for restricted purpose	271,878
Total unrestricted public support, revenue and other	<u>27,066,105</u>

Expenses:

Salaries and benefits	18,767,038
Other than personnel services	6,677,340
Interest	169,164
Bad debt	380,645
Total expenses	<u>25,994,187</u>

Operating income prior to depreciation and amortization 1,071,918

Depreciation and Amortization 868,167

Increase in unrestricted net assets from operations 203,751

Non-operating revenue:

Add back investment loss representing non-controlling interest	2,646
Total non-operating revenue	<u>2,646</u>

Increase in unrestricted net assets 206,397

Changes in temporarily restricted net assets:

Contributions	397,400
Release from restrictions	(271,878)
Increase in temporarily restricted net assets	<u>125,522</u>

Increase in net assets \$ 331,919

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

Thundermist Health Center, Inc. and Related Entities

**Consolidated Statement of Changes in Net Assets
Year Ended August 31, 2012**

	UNRESTRICTED	TEMPORARILY RESTRICTED	MEMBERS' EQUITY	NON- CONTROLLING INTEREST	TOTAL
Balance at August 31, 2011	\$ 11,509,931	\$ 75,000	\$ 2,584	\$ (49)	\$ 11,587,466
Increase (decrease) in net assets for the year ended August 31, 2012	238,564	125,522	(32,167)		331,919
Net loss representing non-controlling interest				(2,646)	(2,646)
Capital contributions			756,044		756,044
Balance at August 31, 2012	\$ 11,748,495	\$ 200,522	\$ 726,461	\$ (2,695)	\$ 12,672,783

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

Thundermist Health Center, Inc. and Related Entities

**Consolidating Statement of Functional Expenses
Year Ended August 31, 2012**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Functional expenses:				
Salaries and wages	\$ 12,586,987	\$ 2,098,847	\$ 188,262	\$ 14,874,096
Fringe benefits	3,301,199	547,677	44,066	3,892,942
Consultants and professional services	1,118,706	217,495	11,810	1,348,011
Laboratory	285,235			285,235
Occupancy	378,210	141,210		519,420
Health promotions	87,935	49,893		137,828
Consumable supplies	2,295,312	177,379		2,472,691
Insurance	17,138	18,095		35,233
Telephone	153,639	76,405		230,044
Travel, conferences and meetings	22,650	32,580		55,230
Staff training and recruiting	217,974	61,534		279,508
Repairs and maintenance	321,294	139,622		460,916
Dues and subscriptions	68,801	62,503		131,304
Printing, publications and postage	45,446	14,176		59,622
IT costs	221,659	101,359		323,018
Interest	-	169,164		169,164
Miscellaneous	85,028	190,353	63,899	339,280
Provision for bad debts	380,645			380,645
	<u>21,587,858</u>	<u>4,098,292</u>	<u>308,037</u>	<u>25,994,187</u>
Depreciation and amortization	<u>728,217</u>	<u>139,950</u>	<u>-</u>	<u>868,167</u>
Total functional expenses	<u>\$ 22,316,075</u>	<u>\$ 4,238,242</u>	<u>\$ 308,037</u>	<u>\$ 26,862,354</u>

Thundermist Health Center, Inc. and Related Entities

Consolidated Statement of Cash Flows
Year Ended August 31, 2012

Cash flows from operating activities:	
Cash received from services and grants	\$ 26,737,704
Cash paid to employees for services	(18,435,878)
Cash paid to suppliers for goods and services	(7,215,093)
Net cash provided by operating activities	<u>1,086,733</u>
Cash flows from investing activities:	
Purchase of property , plant and equipment	(1,246,544)
Net cash used in investing activities	<u>(1,246,544)</u>
Cash flows from financing activities:	
Proceeds from capital contributions	756,044
Principal payment of bond payable obligation	(206,750)
Interest paid	(169,164)
Net cash provided by financing activities	<u>380,130</u>
Net increase in cash and cash equivalents	220,319
Cash and cash equivalents at the beginning of the year	<u>2,105,317</u>
Cash and cash equivalents at the end of the year	<u>\$ 2,325,636</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	<u>\$ 331,919</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Noncontrolling interest	(2,646)
Depreciation and amortization	868,167
Decrease in provision for bad debts	(221,392)
Interest expense	169,164
Changes in operating assets and liabilities	
Increase in patient services receivable	(244,698)
Increase in DHHS grants receivable	(248,459)
Decrease in contracts receivable	39,234
Increase in prepaid expenses and other	(39,505)
Decrease in deposits	25,175
Increase in accounts payable and accrued expenses	78,614
Increase in accrued compensation	<u>331,160</u>
Total adjustments	<u>754,814</u>
Net cash provided by operating activities	<u>\$ 1,086,733</u>

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

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

1. Organization

Thundermist Health Center, Inc. (the “Center”) is the sole member of Thundermist Foundation, Inc. (the “Foundation”), and is therefore considered the parent company. Thundermist Health Center, Inc. also owns 100% of THC Development Company, LLC and THC Manager, LLC. Thundermist Health Center, Inc. and Related Entities are collectively referred to as “Thundermist.” Thundermist consists of non-for-profit entities designed to provide and support services to a largely medically underserved population and for-profit entities designed to facilitate real estate development.

THC Development Company, LLC is a for-profit entity established to recognize the developers fee that is earned on the property developed and owned by THC Landlord, LLC.

THC Manager, LLC is a for-profit entity that owns 90% of THC Landlord, LLC and 0.01% of THC-MT, LLC. THC Manager, LLC acts as the managing member for both Companies.

THC Landlord, LLC is a for-profit entity that owns the building located in West Warwick, Rhode Island. All activity to rehabilitate this building for historical tax credits is recorded in this entity’s general ledger. Thundermist Health Center, Inc. owns 5% of this entity and is identified as the limited member of this LLC.

The Center provides healthcare services to individuals primarily located in Woonsocket, Wakefield and West Warwick, Rhode Island. The Center provides a broad range of health services to a largely medically underserved population.

The Foundation’s primary function is to support the mission of the Center. The Foundation exists to increase public awareness of the Center and to raise donations and make expenditures to support the Center’s mission.

2. Summary of Significant Accounting Policies

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

The consolidated financial statements include the accounts of the Center, Foundation and for-profit entities. All intercompany transactions have been eliminated.

Thundermist has a potential concentration of credit risk in that it maintains deposits with (a) financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). The maximum deposit insurance amount is \$250,000 for interest bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposit accounts are provided unlimited insurance coverage through December 31, 2012. At certain times during the year, cash balances may exceed FDIC limits. At August 31, 2012, Thundermist had \$353,380 of cash deposits which were uninsured. The uninsured balance represented amounts held in excess of the Federal Deposit Insurance (FDIC) limit, primarily amounts held in money market accounts.

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

2. Summary of Significant Accounting Policies (Continued)

Patient services receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends. The Center writes off patient services receivable against the allowance when a balance is determined to be uncollectible. Recoveries of receivables previously written off are recorded as revenue when received.

Property, plant and equipment is recorded at cost. Depreciation and amortization is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years. Thundermist's policy is to capitalize purchases greater than \$5,000 which have an estimated useful life in excess of one year.

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time restrictions ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At August 31, 2012 the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$6,925,977 that have not been recorded in these consolidated financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue. All other patient service revenue is recorded at published charges with contractual allowances deducted to arrive at net patient service revenue.

The Center expenses advertising costs as incurred. During the year ended August 31, 2012, the Center incurred advertising costs totaling \$137,528.

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements

August 31, 2012

2. Summary of Significant Accounting Policies (Continued)

GAAP requires all entities preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America to report derivatives as either assets or liabilities in the consolidated statement of financial position at fair value. GAAP establishes criteria for the designation and measuring the effectiveness of hedging relationships. Change in the fair value of derivative instruments is recognized in the consolidated statement of activities.

The for-profit entities are limited liability companies as defined in the Internal Revenue Code. Accordingly, the Companies do not provide for income taxes since the pro rata share of income is included in the member's tax return.

The for-profit entities evaluate all significant tax positions as required by generally accepted accounting principles in the United States of America. As of August 31, 2012, management does not believe that they have taken any tax positions that would require the recording of any additional tax liability nor do they believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The for-profit entities income tax returns are subject to examination by the appropriate taxing jurisdictions. As of August 31, 2012 the income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

The Center and Foundation are exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. The Center and Foundation is also exempt from Rhode Island income taxes. However, income from certain activities not directly related to the tax-exempt purpose may be subject to taxation as unrelated business income at both the state and federal levels. In addition, the Center and Foundation qualify for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Center and Foundation evaluate all significant tax positions as required by GAAP. As of August 31, 2012, the Center and Foundation do not believe that they have taken any tax positions that would require the recording of any additional tax liability nor do they believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Center's and Foundation's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of August 31, 2012, the Center's and Foundation's federal tax returns generally remain open for the last three years.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

2. Summary of Significant Accounting Policies (Continued)

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Subsequent events have been evaluated through January 7, 2013 which is the date the consolidated financial statements were approved for issuance.

3. Patient Services Receivable, Net

Patient services receivable, net, consists of the following at August 31, 2012:

Medicaid	\$ 235,247
Medicare	188,948
Self-pay	778,278
Other third-party payors	834,729
	<u>2,037,202</u>
Less allowance for doubtful accounts	(877,360)
<i>Patient Services Receivable, Net</i>	<u><u>\$ 1,159,842</u></u>

4. Contracts Receivable

Contracts receivable, net, consists of the following at August 31, 2012:

Rhode Island Department of Health:	
Women, Infants, and Children Program	\$ 68,566
Family Planning Services	29,110
Comprehensive Diabetes Patient Risk Monitoring Program	4,250
Cancer Screening	5,465
HIV Positive Prevention	9,623
Heart Disease and Stroke Prevention	2,053
Other Contracts	8,877
<i>Contracts Receivable</i>	<u><u>\$ 127,944</u></u>

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

5. Property, Plant and Equipment, Net

Property, plant and equipment, net, consists of the following at August 31, 2012:

Land and Construction in Progress	\$ 4,875,295
Building and improvements	10,458,402
Furniture, fixtures and equipment	3,390,968
	18,724,665
Less accumulated depreciation and amortization	(4,499,447)
<i>Property, Plant and Equipment, Net</i>	\$ 14,225,218

In the event the U.S. Department of Health and Human Services (“DHHS”) grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds or grant-related income to the PHS or third parties.

6. Bond Payable

On August 2, 2010, the Center refinanced a tax exempt bond in the amount of \$6,300,000 into another series of tax-exempt bonds in the amount of \$4,135,000. The completed refinancing was with Rhode Island Health and Educational Building Corporation. The bonds mature on August 1, 2020, and are secured by land and building. The bonds were purchased by The Washington Trust Company in the exchange for the purchase price of \$4,135,000. The bonds shall be in the form of one bond, registered in the name of the purchaser. Interest is 4.36% per annum and shall be computed based on the actual number of days elapsed over a year of 360 days. The principal balance outstanding on the bond payable obligation was \$3,721,500 at August 31, 2012. Principal payments due during the fiscal year ending August 31, 2013 are \$206,750. Collateral on this outstanding bond includes the following properties: 450 Clinton Street, Woonsocket, RI, 1 River Street, Wakefield, RI and 186 Providence Street, West Warwick, RI.

Principal payments due on the bond payable and long-term debt obligations for each of the five years succeeding August 31, 2012 are as follows:

Year ending August 31,	
2013	\$ 206,750
2014	206,750
2015	206,750
2016	206,750
2017	206,750
Thereafter	2,687,750
<i>Total bond payable and long-term debt obligations</i>	3,721,500
Less current maturities	(206,750)
<i>Net bond payable and long-term debt obligations</i>	\$ 3,514,750

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

7. Line of Credit

The Center has a revolving line of credit, collateralized by various Center assets. The agreement requires interest to be charged on the outstanding balance at the current prime interest per annum (3.25% at August 31, 2012). The line of credit is for \$500,000 and terminates upon demand by Lender. There was no outstanding balance at August 31, 2012. Collateral on this line of credit includes the following properties: 450 Clinton Street, Woonsocket, RI, 1 River Street, Wakefield, RI and 186 Providence Street, West Warwick, RI.

8. DHHS Grants

For the year ended August 31, 2012, the Center recognized revenue from the following DHHS grants:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Unrestricted Revenue</u>	<u>Grant Recognized</u>
5H76HA00704-07-00	4/1/11-3/31/12	\$ 367,034	\$ 214,103
6H76HA00704-11-01	4/1/12-3/31/13	367,034	152,931
6C120CS22036-01-03	7/1/11-6/30/13	363,799	211,393
6C8BCS23965-01-01	5/1/12-4/30/14	228,812	9,941
6H80CS00454-08-08	6/1/10-1/31/12	2,204,759	1,427,675
5H80CS00454-11-00	2/1/12-3/31/12	501,769	501,769
5H80CS00454-11-00	4/1/12-1/31/13	2,508,845	1,254,423
6H80CS00454-08-02	6/1/11-1/31/12	89,346	56,765
5H80CS00454-11-00	2/1/12-3/31/12	38,006	38,006
5H80CS00454-11-00	4/1/12-1/31/13	190,036	95,018
1C8ACS23802-01-00	5/1/12-4/30/15	5,000,000	8,843
			<u>\$ 3,970,867</u>

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

9. Patient Services, Net

For the year ended August 31, 2012, patient services revenue, net, consists of the following:

	<u>Gross Charges</u>	<u>Contractual and Charitable Allowances</u>	<u>Net Revenue</u>
Medicaid	\$ 9,051,740	\$ 3,118,218	\$ 5,933,522
Medicare	1,386,847	(39,315)	1,426,162
Self-pay	6,194,756	5,308,086	886,670
Other third-party payors	10,246,264	2,524,814	7,721,450
	<u>\$ 26,879,607</u>	<u>\$ 10,911,803</u>	15,967,804
Rhode Island transitional payments			<u>2,498,865</u>
			<u>\$ 18,466,669</u>

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revision are recognized in the fiscal year incurred.

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

10. Contract Services

For the year ended August 31, 2012, contract revenue, consists of the following:

Rhode Island Department of Health:

Women, Infants, and Children program	\$	443,529
Family Planning Service		192,272
School-Based Health Center		94,051
HIV Prevention		58,901
Comprehensive Diabetes Patient Risk Monitoring Program		33,667
Family Resource Counselor Program		27,600
Cancer Screening		22,026
Colorectal Cancer Screening		35,000
Infertility Prevention		9,982
Heart Stroke Prevention		13,414

Rhode Island Department of Human Services:

Legislative grants		42,180
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Rhode Island Direct:

Uncompensated Care		237,572
Town contracts		25,833
Landmark grant		135,250
Medicaid meaningful use		701,250
NHPRI contracts		486,248
Other		640,159
	\$	<u><u>3,198,934</u></u>

11. Fundraising Events

During the year ended August 31, 2012, the Foundation sponsored the following events:

	Gross Proceeds	Fundraising Expenses	Net Proceeds
Duck Race	\$ 8,348	\$ 6,275	\$ 2,073
Moonlight at the Dunes	91,576	33,432	58,144
Golf Tournament	45,750	24,192	21,558
	<u><u>\$ 145,674</u></u>	<u><u>\$ 63,899</u></u>	<u><u>\$ 81,775</u></u>

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

12. Pension Plan

The Center has a defined contribution pension plan covering all employees meeting certain eligibility requirements. Contributions to the plan are based on a fixed percentage of salaries based on the years of service provided. The contribution percentages range from 3% - 10%. Pension expense totaled \$419,248 for the year ended August 31, 2012.

13. Future Minimum Rental Income

The Center leases space under noncancelable operating leases to various tenants. The leases have various expiration dates. Future minimum rental income under noncancelable operating leases is as follows:

<u>Year ending August 31,</u>	
2013	\$ 26,276
2014	16,471
	<u>\$ 42,747</u>

14. Commitments and Contingencies

The Center has contracted with various funding agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from state and federal agencies. Reimbursements received under these contracts and payments from Medicaid and Medicare are subject to audit by federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amount in question. Center officials believe such disallowances, if any, would be immaterial.

Revenues from grantor agencies are recorded as exchange transactions. Excess of revenue over expenses are treated as unrestricted net assets. Certain state and federal contract agreements reserve the right to reprogram or recover excess net asset balances. Certain contracts stipulate various recovery terms for property and equipment upon sale or change of use of assets purchased with grant funds. There is no readily determinable value for the amount of funds that may be reprogrammed or recovered. Center officials believe such disallowances, if any, would be immaterial.

DHHS provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities.

The Center is a party to a historic tax credit purchase and settlement agreement. This agreement commits the Center to pay the Tax Credit Purchaser the amount of \$140,000 upon finalization of the tax credits. As of August 31, 2012, the historic tax credits were not finalized but the estimated liability was recorded in the consolidated Statement of Financial Position.

Thundermist Health Center, Inc. and Related Entities

Notes to Consolidated Financial Statements August 31, 2012

14. Commitments and Contingencies (Continued)

The Center is involved in a project relating to the construction at the South County location and they have entered into a contract with a project manager as of August 31, 2012. The estimated cost of this project is approximately \$6.5 million.

The Center leases space under noncancelable operating leases that have terms of 36 months – 384 months. There were no new leases in 2012. Rent expense for the year ended August 31, 2012 amounted to \$328,210. Facilities leased under noncancelable operating leases require future minimum payments as follows:

<u>Year ending August 31,</u>	
2013	\$ 228,840
2014	214,733
2015	167,800
2016	165,392
2017	167,459
Thereafter	5,208,708
	<u>\$ 6,152,932</u>

15. Estimated Fair Value of Financial Instruments

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Center's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the assets.

16. Related Party Transactions

A member of the Board of Directors of Thundermist Foundation is currently acting as the project manager for building renovations. The total amount paid for this work was approximately \$28,000.

17. Rebate Payable, U.S. Government

Interest paid to bondholders is not includable in their gross income for Federal or Rhode Island income tax purpose. In order to maintain this exemption, Thundermist must comply with certain provisions of the Internal Revenue Code and the bond resolutions arbitrage certificate. These provisions require that the excess of actual investment earnings of the bond funds over the allowable earnings be set aside in a rebate fund to provide for a liability to the United States government.

As of August 31, 2012, the amount of this liability included in the arbitrage rebate fund was \$0. The liability is periodically recalculated to provide the best estimate of its amount. The latest calculation of this liability resulted in no change from the prior amount.

Supplementary Information

Thundermist Health Center, Inc.

**Schedule of Operations by Federal Program
Year Ended August 31, 2012**

	<u>Community Health Center Program</u>	<u>Health Center Grants for Homeless Populations</u>	<u>Subtotal</u>	<u>Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease</u>	<u>Afordable Care Act</u>	<u>Total</u>
Revenue:						
DHHS grants	\$ 3,183,870	\$ 189,786	\$ 3,373,656	\$ 367,034	\$ 230,177	\$ 3,970,867
Contributions	397,400		397,400			397,400
Patient services, net	18,409,454		18,409,454	57,215		18,466,669
Contract services	3,165,434	33,500	3,198,934			3,198,934
Rental income	379,822		379,822			379,822
Other	230,307		230,307			230,307
Total revenue	<u>25,766,287</u>	<u>223,286</u>	<u>25,989,573</u>	<u>424,249</u>	<u>230,177</u>	<u>26,643,999</u>
Expenses						
Salaries and benefits	17,797,395	279,831	18,077,226	457,484		18,534,710
Other than personnel services	6,310,341	111,481	6,421,822	97,481		6,519,303
Interest	169,164	-	169,164	-		169,164
Provision for bad debts	380,645	-	380,645	-		380,645
Total expenses	<u>24,657,545</u>	<u>391,312</u>	<u>25,048,857</u>	<u>554,965</u>	<u>-</u>	<u>25,603,822</u>
Operating income (loss) prior to depreciation and amortization	1,108,742	(168,026)	940,716	(130,716)	230,177	1,040,177
Depreciation and Amortization	<u>725,195</u>		<u>725,195</u>	<u>-</u>		<u>725,195</u>
Increase (decrease) in unrestricted net assets	<u>\$ 383,547</u>	<u>\$ (168,026)</u>	<u>\$ 215,521</u>	<u>\$ (130,716)</u>	<u>\$ 230,177</u>	<u>\$ 314,982</u>

Note: This schedule includes ONLY the activity of Thundermist Health Center, Inc.

Thundermist Health Center, Inc. and Related Entities

Consolidating Statement of Financial Position
August 31, 2012

	Thundermist Health Center, Inc.	Thundermist Foundation, Inc.	THC Development Company, LLC	THC Manager, LLC & Related Entities	Eliminations	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 1,826,630	\$ 376,200	\$ -	\$ 122,806	\$ -	\$ 2,325,636
Investment in THC Landford, LLC	1,821,080			-	(1,821,080)	-
Investment in THC MT, LLC				100		100
Investment in THC Manager, LLC	100				(100)	-
Patient services receivable, net	1,159,842					1,159,842
DHHS grants receivable	587,540					587,540
Contracts receivable	127,944					127,944
Developer fee receivable			788,539		(788,539)	-
Prepaid expenses and other assets	565,394	2,028				567,422
Due from related party	3,101,254	126,667			(3,227,921)	-
Loan Receivable	900,000				(900,000)	-
Total current assets	10,089,784	504,895	788,539	122,906	(6,737,640)	4,768,484
Property, plant and equipment, net	8,326,694	-	-	6,664,446	(765,922)	14,225,218
Total assets	\$ 18,416,478	\$ 504,895	\$ 788,539	\$ 6,787,352	\$ (7,503,562)	\$ 18,993,702
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 1,221,429	\$ 887	\$ -	\$ 812,187	\$ (788,539)	\$ 1,245,964
Accrued compensation	1,353,455					1,353,455
Note payable	-			900,000	(900,000)	-
Current maturities of bonds payable	206,750				-	206,750
Due to related party	126,667	548,418	500	2,552,336	(3,227,921)	-
Total current liabilities	2,908,301	549,305	500	4,264,523	(4,916,460)	2,806,169
Long-Term Liabilities:						
Bonds payable, less current maturities	3,514,750	-	-	-	-	3,514,750
Total long-term liabilities	3,514,750	-	-	-	-	3,514,750
Total liabilities	6,423,051	549,305	500	4,264,523	(4,916,460)	6,320,919
Net Assets and Members' Equity:						
Noncontrolling Interest				(2,695)		(2,695)
Members' Equity			788,039	2,525,524	(2,587,102)	726,461
Temporarily Restricted Net Assets	200,522					200,522
Unrestricted Net Assets:						
Investment in property, plant and equipment, net of related debt	4,605,194					4,605,194
Undesignated	7,187,711	(44,410)				7,143,301
Total net assets and members' equity	11,993,427	(44,410)	788,039	2,522,829	(2,587,102)	12,672,783
Total liabilities, net assets and members' equity	\$ 18,416,478	\$ 504,895	\$ 788,539	\$ 6,787,352	\$ (7,503,562)	\$ 18,993,702

THC Manager, LLC and Related Entities

Consolidating Statement of Financial Position August 31, 2012

	THC Landlord, LLC	THC Manager, LLC	Eliminations	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 122,806	\$ -	\$ -	\$ 122,806
Investment in THC Landlord, LLC		(48,405)	48,405	-
Investment in THC, MT-LLC		100		100
Due from related party	100		(100)	-
Total current assets	<u>122,906</u>	<u>(48,305)</u>	<u>48,305</u>	<u>122,906</u>
Property, plant and equipment, net	<u>6,664,446</u>	<u>-</u>	<u>-</u>	<u>6,664,446</u>
Total assets	<u>\$ 6,787,352</u>	<u>\$ (48,305)</u>	<u>\$ 48,305</u>	<u>\$ 6,787,352</u>
<u>Liabilities and Members' Deficit</u>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 812,187	\$ -	\$ -	\$ 812,187
Note payable	900,000			900,000
Due to related party	<u>2,551,836</u>	<u>600</u>	<u>(100)</u>	<u>2,552,336</u>
Total current liabilities	<u>4,264,023</u>	<u>600</u>	<u>(100)</u>	<u>4,264,523</u>
Total liabilities	<u>4,264,023</u>	<u>600</u>	<u>(100)</u>	<u>4,264,523</u>
Members' Equity:				
Noncontrolling Interest			(2,695)	(2,695)
Members' equity	<u>2,523,329</u>	<u>(48,905)</u>	<u>51,100</u>	<u>2,525,524</u>
Total members' equity	<u>2,523,329</u>	<u>(48,905)</u>	<u>48,405</u>	<u>2,522,829</u>
Total liabilities and members' equity	<u>\$ 6,787,352</u>	<u>\$ (48,305)</u>	<u>\$ 48,305</u>	<u>\$ 6,787,352</u>

Thundermist Health Center, Inc. and Related Entities

**Consolidating Statement of Activities
Year Ended August 31, 2012**

	Thundermist Health Center, Inc.	Thundermist Foundation, Inc.	THC Development Company, LLC	THC Manager, LLC & Related Entities	Elimination	Total
Change in unrestricted net assets:						
Public Revenue and Support:						
DHHS grants	\$ 3,970,867	\$ -	\$ -	\$ -	\$ -	\$ 3,970,867
Patient services, net	18,466,669					18,466,669
Contract services	3,198,934					3,198,934
Contributions		243,773				243,773
Developer fee income			132,645		(132,645)	-
Rental income	379,822			126,927		506,749
Fundraising		145,674				145,674
Other	230,307			31,254		261,561
Total unrestricted public revenue and support	26,246,599	389,447	132,645	158,181	(132,645)	26,794,227
Net assets released from restrictions:						
Contributions satisfied by use of funds for restricted purpose	196,878	75,000				271,878
Total unrestricted public support, revenue, and other	26,443,477	464,447	132,645	158,181	(132,645)	27,066,105
Expenses:						
Salaries and benefits	18,534,710	232,328				18,767,038
Other than personnel services	6,519,303	108,015	500	49,522		6,677,340
Interest	169,164					169,164
Bad debts	380,645					380,645
Total expenses	25,603,822	340,343	500	49,522	-	25,994,187
Operating income prior to depreciation and amortization	839,655	124,104	132,145	108,659	(132,645)	1,071,918
Depreciation and Amortization	725,195	-		162,085	(19,113)	868,167
Increase (decrease) in unrestricted net assets from operations	114,460	124,104	132,145	(53,426)	(113,532)	203,751
Non-operating revenue:						
Add back investment loss representing non-controlling interest	-	-	-	2,646	-	2,646
Total non-operating revenue	-	-	-	2,646	-	2,646
Increase (decrease) in unrestricted net assets	114,460	124,104	132,145	(50,780)	(113,532)	206,397
Changes in temporarily restricted net assets:						
Contributions	397,400	-				397,400
Release from restrictions	(196,878)	(75,000)				(271,878)
Increase (decrease) in temporarily restricted net assets	200,522	(75,000)	-	-	-	125,522
Increase (decrease) in net assets	\$ 314,982	\$ 49,104	\$ 132,145	\$ (50,780)	\$ (113,532)	\$ 331,919

THC Manager, LLC and Related Entities

**Consolidating Statement of Activities and Changes in Members' Equity (Deficit)
Year Ended August 31, 2012**

	THC Landlord, LLC	THC Manager, LLC	Elimination	Total
Unrestricted Revenue and Support:				
Rental income	\$ 126,927	\$ -	\$ -	\$ 126,927
Other	31,254			31,254
Total unrestricted revenue and support	<u>158,181</u>	<u>-</u>	<u>-</u>	<u>158,181</u>
Expenses:				
Other than personnel services	49,022	500		49,522
Investment expense		47,633	(47,633)	-
Total expenses	<u>49,022</u>	<u>48,133</u>	<u>(47,633)</u>	<u>49,522</u>
Operating income (loss) prior to depreciation and amortization	109,159	(48,133)	47,633	108,659
Depreciation and Amortization	<u>162,085</u>	<u>-</u>	<u>-</u>	<u>162,085</u>
Increase (decrease) in members' equity (deficit)	<u>(52,926)</u>	<u>(48,133)</u>	<u>47,633</u>	<u>(53,426)</u>
Add back loss representing noncontrolling interest			<u>2,646</u>	<u>2,646</u>
Decrease in members' equity (deficit)	<u>\$ (52,926)</u>	<u>\$ (48,133)</u>	<u>\$ 50,279</u>	<u>\$ (50,780)</u>
Members' equity (deficit), August 31, 2011	\$ 1,820,211	\$ (772)	\$ 772	\$ 1,820,211
Increase (decrease) in members' equity (deficit)	(52,926)	(48,133)	50,279	(50,780)
Payments received on capital contribution	777,284			777,284
Capital contribution adjustment	(21,240)			(21,240)
Noncontrolling interest			(2,646)	(2,646)
Members' equity (deficit), August 31, 2012	<u>\$ 2,523,329</u>	<u>\$ (48,905)</u>	<u>\$ 48,405</u>	<u>\$ 2,522,829</u>

Internal Controls and Compliance Section

***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Thundermist Health Center, Inc.
Woonsocket, Rhode Island

We have audited the consolidated financial statements of the Thundermist Health Center, Inc. as of and for the year ended August 31, 2012, which collectively comprise Thundermist's basic financial statements and have issued our report thereon dated January 7, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Thundermist is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Thundermist's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Thundermist's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Thundermist's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Thundermist's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thundermist's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Providence, Rhode Island
January 7, 2013

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Thundermist Health Center, Inc.
Woonsocket, Rhode Island

Compliance

We have audited Thundermist Health Center, Inc.'s, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Thundermist's major federal programs for the year ended August 31, 2012. Thundermist's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Thundermist's management. Our responsibility is to express an opinion on Thundermist's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Thundermist's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Thundermist's compliance with those requirements.

In our opinion, Thundermist complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

Internal Control Over Compliance

Management of Thundermist is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Thundermist's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Thundermist's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee, Finance Committee, Board of Directors, management, others within the organization, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Braves PC

Providence, Rhode Island
January 7, 2013

Thundermist Health Center, Inc.

**Schedule of Expenditures of Federal Awards
Year Ended August 31, 2012**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Agency or Federal Expenditures
U.S. Department of Agriculture:			
Passed through Rhode Island Department of Health:			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	N/A	<u>\$ 2,576,854</u>
Total U.S. Department of Agriculture			<u>2,576,854</u>
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Centers Program	93.224	H80 CS00454C0	3,373,656
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00704C0	367,034
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	C12CS22036AC	211,393
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	C8BCS23965AC	9,941
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	C8ACS23802	<u>8,843</u>
Total U.S. Department of Health and Human Services			<u>3,970,867</u>
Department of Housing and Urban Development			
Passed through Town of Narragansett, Rhode Island			
Community Block Development Grant	14.218	N/A	<u>6,000</u>
Total Department of Housing and Urban Development			<u>6,000</u>
Total Federal Expenditures			<u><u>\$ 6,553,721</u></u>

Thundermist Health Center, Inc.

Notes to Schedule of Expenditures of Federal Awards Year Ended August 31, 2012

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Thundermist Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

2. Determination of Major Programs

The determination of major federal awards programs was based upon the overall level of expenditures for all federal programs for Thundermist Health Center, Inc. As such, the threshold for determining Type A programs are defined as those with federal program expenditures greater than \$300,000 or 3 percent of total federal expenditures when the total federal expenditures are over \$10,000,000. The federal expenditures incurred related to funding received under CFDA #10.557, and #93.224 have been tested as major program expenditures for the fiscal year ended August 31, 2012.

3. WIC Food Checks

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair value of the WIC checks provided to eligible recipients by the Center. The total federal share of food instruments distributed by the Center was \$2,133,325 for the fiscal year ended August 31, 2012. These checks are reported in the Schedule of Expenditures of Federal Awards but are omitted from the consolidated statement of activities for the fiscal year ended August 31, 2012.

Thundermist Health Center, Inc.

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

A. Summary of Audit Results

1. The Report of Independent Auditors expressed an unqualified opinion on the consolidated financial statements of Thundermist Health Center, Inc. and Related Entities.
2. No significant deficiencies related to the audit of the financial statements were reported in the Report of Independent Auditors.
3. No instances of noncompliance material to the financial statements of Thundermist Health Center, Inc. were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs were reported.
5. The Auditor's Report on compliance for the major federal award programs for Thundermist Health Center, Inc. expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Thundermist Health Center, Inc. are reported in Part C of this schedule.
7. The programs tested as major programs were:
 - Special Supplemental Nutrition Program for Women, Infants and Children, CFDA #10.557
 - Consolidated Health Centers, CFDA #93.224
8. The threshold for distinguishing Type A programs was \$300,000.
9. Thundermist Health Center, Inc. was not considered a low-risk auditee.

B. Findings -- Financial Statements Audit

Current year findings:

None noted.

Prior year findings:

None noted.

C. Findings and Questioned Costs -- Major Federal Award Program Audit

Current year findings:

None noted.

Thundermist Health Center, Inc.

**Summary Schedule of Prior Audit Findings
Year Ended August 31, 2012**

C. Findings and Questioned Costs -- Major Federal Award Program Audit (Continued)

Prior year findings:

None noted.