

THUNDERMIST HEALTH CENTER, INC.
AND RELATED ENTITIES

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2014
(with comparative totals for 2013)
WITH
INDEPENDENT AUDITORS' REPORT**

Thundermist Health Center, Inc. and Related Entities

Introduction August 31, 2014

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.

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, 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 Center’s audit was performed in accordance with 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, 2014 and fieldwork was performed during the period from October 21, 2014 to December 31, 2014.

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, 2014, and the related consolidated statements of activities, changes in net assets, cash flows, and functional expenses for the year then ended;
- The expression of an opinion on the Schedule of Expenditures of Federal Awards for the year ended August 31, 2014;
- 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.

Thundermist Health Center, Inc. and Related Entities

Table of Contents

Year Ended August 31, 2014
(with comparative totals for 2013)

	<u>Page (s)</u>
Independent Auditors' Report	1 - 2
<i>Financial Statements:</i>	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Changes in Net Assets	5
Consolidated Statement of Cash Flows	6
Notes to the Consolidated Financial Statements.....	7 – 17
<i>Supplementary Information:</i>	
Consolidated Statement of Functional Expenses	18
Consolidating Statement of Financial Position.....	19
Consolidating Statement of Financial Position – THC Manager, LLC And Related Entities	20
Consolidating Statement of Activities	21
Consolidating Statement of Activities and Changes in Members' Equity (Deficit) – THC Manager, LLC And Related Entities.....	22
<i>Single Audit Section:</i>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23 - 24
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	25 - 26
Schedule of Expenditures of Federal Awards.....	27
Notes to the Schedule of Expenditures of Federal Awards	28
Schedule of Findings and Questioned Costs.....	29 - 30

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying consolidated statements of Thundermist Health Center, Inc. and Related Entities (collectively, "Thundermist"), which comprise the consolidated statement of financial position as of August 31, 2014, and the related consolidated statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Thundermist as of August 31, 2014 and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Functional Expenses on Page 18, and the Consolidating Statements, on Pages 19-22 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying Schedule of Expenditures of Federal Awards of Thundermist Health Center, Inc., as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements or to the 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 consolidated financial statements as a whole.

Report on Summarized Comparative Information

The financial statements of Thundermist as of August 31, 2013, were audited by Braver P.C. whose practice was combined with Marcum LLP as of January 1, 2014, and whose report dated January 6, 2014, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2015, on our consideration of Thundermist's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Thundermist's internal control over financial reporting and compliance.

Marcum LLP

Providence, Rhode Island
March 14, 2015

Thundermist Health Center, Inc. and Related Entities

Consolidated Statement of Financial Position

August 31, 2014

(with comparative totals for 2013)

	<u>Assets</u>	
	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 2,304,459	\$ 2,012,671
Investments	10,246	-
Investment in THC-MT, LLC	100	100
Patient services receivable, net	1,656,003	1,645,741
DHHS grants receivable	193,309	414,402
Contracts receivable, net	3,892,773	737,237
Prepaid expenses and other	428,392	233,216
Due from related party	147,618	321,042
Total current assets	<u>8,632,900</u>	<u>5,364,409</u>
Non-Current Assets:		
Due from THC-MT, LLC	<u>1,130,185</u>	<u>118,737</u>
Property, plant and equipment, net	<u>16,422,527</u>	<u>15,062,987</u>
Total assets	<u>\$ 26,185,612</u>	<u>\$ 20,546,133</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,228,955	\$ 1,064,019
Accrued compensation	1,676,869	1,518,507
Current maturities of notes payable	348,306	206,750
Total current liabilities	<u>3,254,130</u>	<u>2,789,276</u>
Long-Term Liabilities:		
Notes payable, less current maturities	<u>3,841,757</u>	<u>3,308,000</u>
Total liabilities	<u>7,095,887</u>	<u>6,097,276</u>
Net Assets and Non-controlling Equity Interest:		
Non-controlling equity interest	754,918	754,545
Temporarily restricted net assets	160,556	-
Unrestricted net assets		
Investment in property, plant and equipment, net of related debt	11,477,546	10,793,692
Undesignated	6,696,705	2,900,620
Total net assets and non-controlling equity interest	<u>19,089,725</u>	<u>14,448,857</u>
Total liabilities, net assets and non-controlling equity interest	<u>\$ 26,185,612</u>	<u>\$ 20,546,133</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, 2014
(with comparative totals for 2013)**

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets:		
Public Revenue and Support:		
DHHS grants	\$ 4,244,798	\$ 3,734,631
Patient services, net	26,878,833	20,727,415
Contract services	3,637,032	3,480,729
Women, Infant and Children Subsidies	2,020,428	2,090,165
Contributions	139,999	239,528
Rental income	589,054	509,366
Fund-raising	170,595	129,353
Other	48,447	127,918
Total unrestricted public revenue and support	<u>37,729,186</u>	<u>31,039,105</u>
Net assets released from restrictions:		
Contributions satisfied by use of funds for restricted purpose	-	200,522
Total unrestricted public support, revenue and other	<u>37,729,186</u>	<u>31,239,627</u>
Expenses:		
Program Services:		
Medical	23,227,428	21,010,147
Dental	6,011,295	5,581,676
Support Services:		
Management and general	5,519,015	4,717,824
Fundraising	230,996	109,477
Total expenses	<u>34,988,734</u>	<u>31,419,124</u>
Increase (Decrease) in unrestricted net assets from operations	<u>2,740,452</u>	<u>(179,497)</u>
Non-operating revenue (expense):		
Historic tax credit - state	-	1,419,144
Grant revenue - capital projects	1,739,860	736,949
Net income of non-controlling interest	(373)	(65)
Total non-operating revenue	<u>1,739,487</u>	<u>2,156,028</u>
Increase in unrestricted net assets	<u>4,479,939</u>	<u>1,976,531</u>
Changes in temporarily restricted net assets:		
Contributions	160,556	-
Release from restrictions	-	(200,522)
Increase (decrease) in temporarily restricted net assets	<u>160,556</u>	<u>(200,522)</u>
Increase in net assets	<u>\$ 4,640,495</u>	<u>\$ 1,776,009</u>

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, 2014**

	UNRESTRICTED	TEMPORARILY RESTRICTED	NON-CONTROLLING EQUITY INTEREST	TOTAL
Balance at August 31, 2013	\$ 13,694,312	\$ -	\$ 754,545	\$ 14,448,857
Increase (decrease) in net assets for the year ended August 31, 2014	4,479,939	160,556	-	4,640,495
Net income of non-controlling interest	-	-	373	373
Balance at August 31, 2014	\$ 18,174,251	\$ 160,556	\$ 754,918	\$ 19,089,725

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

Thundermist Health Center, Inc. and Related Entities

**Consolidated Statement of Cash Flows
Year Ended August 31, 2014
(with comparative totals for 2013)**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from services and grants	\$ 34,485,791	\$ 27,668,069
Cash paid to employees for services	(23,206,192)	(20,723,306)
Cash paid to suppliers for goods and services	(11,116,348)	(7,370,207)
Net cash provided by (used in) operating activities	<u>163,251</u>	<u>(425,444)</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,266,280)	(1,677,298)
Net cash used in investing activities	<u>(2,266,280)</u>	<u>(1,677,298)</u>
Cash flows from financing activities:		
Historic tax credit - State	-	1,419,144
Non-operating grants for capital acquisition	1,739,860	736,949
Contributions received restricted for building acquisitions	150,310	-
Proceeds from notes payable obligation	972,921	-
Principal payment of notes payable obligation	(297,608)	(206,750)
Interest paid	(170,666)	(159,566)
Net cash provided by financing activities	<u>2,394,817</u>	<u>1,789,777</u>
Net increase (decrease) in cash and cash equivalents	291,788	(312,965)
Cash and cash equivalents at the beginning of the year	<u>2,012,671</u>	<u>2,325,636</u>
Cash and cash equivalents at the end of the year	<u>\$ 2,304,459</u>	<u>\$ 2,012,671</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets from operations	\$ 2,740,452	\$ (380,019)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	906,740	839,529
Increase (decrease) in provision for bad debts	298,690	358,817
Interest expense	170,666	159,566
Changes in operating assets and liabilities:		
Increase in patient services receivable	(508,952)	(644,716)
(Increase) decrease in DHHS grants receivable	221,093	173,138
(Increase) decrease in contracts receivable	(2,955,536)	(809,293)
(Increase) decrease in prepaid expenses and other	(76,439)	215,469
(Increase) decrease in THC-MT, LLC	(1,011,448)	(118,737)
(Increase) decrease in due from related party	54,687	(202,305)
Increase (decrease) in accounts payable and accrued expenses	164,936	(181,945)
Increase in accrued compensation	158,362	165,052
Total adjustments	<u>(2,577,201)</u>	<u>(45,425)</u>
Net cash provided by (used in) operating activities	<u>\$ 163,251</u>	<u>\$ (425,444)</u>

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

1. Organization

Thundermist Health Center, Inc. (The Center) 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 a not-for-profit entity 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.

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, and for-profit entities. Non-controlling interest of the Center relates to the 5% ownership that THC-MT, LLC has in THC Landlord, LLC, which is 100% owned by the Center. All intercompany transactions have been eliminated.

Thundermist has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC insures up to \$250,000, per depositor, per insured depository institution for each account ownership. At certain times during the year, cash balances may exceed FDIC limits. At August 31, 2014, Thundermist had \$1,915,704 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 believes its deposits are with high quality financial institutions which it believes limits its risk.

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Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

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 are 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 restriction 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. However, the Center has elected to report restricted contributions, whose restrictions are met in the same reporting period as they are received, as unrestricted support.

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, 2014 the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$4,689,438 that have not been recorded in these consolidated financial statements. These grants and contracts require the Center to provide certain healthcare services and for the construction of these healthcare facilities 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, 2014, the Center incurred advertising costs totaling \$51,525.

Some of the 2013 balances have been reclassified to conform to the presentation in 2014.

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Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

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 investments 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 investments is recognized in the consolidated statement of activities. As of August 31, 2014, the Center does not have any derivatives.

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, 2014, 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, 2014 the income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

The Center is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. The Center 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 qualifies 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 evaluates all significant tax positions as required by GAAP. As of August 31, 2014, the Center 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 Center's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of August 31, 2014, the Center's federal tax returns generally remain open for the last three years. The Center's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Thundermist's financial statements for the year ended August 31, 2013 from which the summarized information was derived. Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the 2013 reported results of operations. The change in presentation was related to reporting the Women, Infant and Children Subsidies as a revenue and expense in 2013 and 2014 versus just footnote disclosing the information. The total revenue and expense reported for this subsidy for the years ended August 31, 2014 and 2013 was \$2,020,428 and \$2,090,165, respectively.

(Continued)

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

3. Fair Value Measurements

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:

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.

The asset 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 carrying amounts reported on the consolidated statements of financial position for cash and cash equivalents, accounts receivable, prepaid expenses, other assets, accounts payable, accrued expenses, other liabilities and current debt obligations approximate fair value because of their short-term nature.

Following is a description of the valuation methodologies used for assets measured at fair value.

Stocks: Valued at the closing share price as listed in an active trading market as of August 31, 2014.

There have been no changes in the methodologies used by the Organization as of August 31, 2014.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization 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 fair value measurement at the reporting date.

The following table sets forth by level, with the fair value hierarchy, the Organizations' assets at fair value as of August 31, 2014:

	<u>Level 1</u>
Stocks:	
Household and personal products	\$ 10,246

(Continued)

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

4. Patient Services Receivable, Net

Patient services receivable, net, consists of the following at August 31, 2014:

Medicaid	\$ 308,273
Medicare	213,252
Self-pay	1,234,098
Other third-party payors	1,435,247
	<u>3,190,870</u>
Less allowance for doubtful accounts	(1,534,867)
<i>Patient Services Receivable, Net</i>	<u><u>\$ 1,656,003</u></u>

5. Contracts Receivable

Contracts receivable, net, consists of the following at August 31, 2014:

Rhode Island Department of Health:	
Women, Infants, and Children Program	\$ 75,896
Family Planning Services	24,193
Other	27,261
<i>Contracts receivable from Rhode Island Department of Health</i>	<u>127,350</u>
Medicaid - PPS Reconciliation	2,881,784
Other Contracts	883,639
<i>Contracts Receivable</i>	<u><u>\$ 3,892,773</u></u>

Medicaid Prospective Payment System (PPS) reconciliation of \$2,881,784 noted above represents the estimated amount due from the State of Rhode Island Department of Health and Human Services related to the Federal Qualified Health Center reimbursable encounter rates. This estimate is based on the actual encounters paid for during fiscal 2014 and 2013 in comparison to the approved reimbursement rates established by the funding agency.

(Continued)

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

6. Property, Plant and Equipment, Net

Property, plant and equipment, net, consists of the following at August 31, 2014:

Land and Construction in Progress	\$ 7,709,521
Building and improvements	10,983,772
Furniture, fixtures and equipment	<u>2,217,317</u>
	20,910,610
Less accumulated depreciation and amortization	<u>(4,488,083)</u>
<i>Property, Plant and Equipment, Net</i>	<u><u>\$16,422,527</u></u>

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 U.S. Public Health Service (“PHS”) or third parties.

(Continued)

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

7. Note Payable

The Center has a two notes payable with The Washington Trust Company in the amount of \$4,135,000 and \$750,000. Interest is 4.36% and 4.22%, respectively, 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 notes payable was \$3,308,000 and \$659,142, respectively, at August 31, 2014. The notes payable mature on August 1, 2020 and December 27, 2018, respectively. Principal payments due during the fiscal year ending August 31, 2015 are \$206,750 and \$141,556, respectively.

The Center also has a construction line of credit in the amount of \$2,198,037. As of August 31, 2014 the Center had drawn down \$222,921, for the construction of a new building in Wakefield, Rhode Island. Payments are not due on the line of credit until two years from the closing date or upon issuance of a certificate of occupancy, whichever comes first. Collateral on these outstanding notes includes the following properties: 450 Clinton Street, Woonsocket, RI, 1 River Street, Wakefield, RI and 186 Providence Street, West Warwick, RI.

Future maturities of long-term debt obligations for each of the fiscal years succeeding August 31, 2014 are as follows:

<u>Year ending August 31,</u>	
2015	\$ 348,306
2016	354,396
2017	360,749
2018	367,375
2019	262,066
Thereafter	<u>2,497,171</u>
<i>Total note payable and long-term debt obligations</i>	4,190,063
Less current maturities	(348,306)
<i>Net note payable and long-term debt obligations</i>	<u><u>\$3,841,757</u></u>

8. Line of Credit

The Center has a revolving line of credit, collateralized by various Center assets. The agreement requires interest to be paid on the outstanding balance at the current prime interest per annum (3.25% at August 31, 2014). The line of credit is for \$500,000 and terminates upon demand by Lender. There was no outstanding balance at August 31, 2014. 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.

(Continued)

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

9. DHHS Grants

For the year ended August 31, 2014, the Center recognized revenue from the following DHHS grants:

Award Number	Grant Period	Total Grant Award	Grant Recognized
5 H76HA00704-12-00	4/01/13 to 3/31/14	\$ 62,396	\$ 36,398
6 H76HA00704-12-01	4/01/13 to 3/31/14	286,286	167,000
5 H76HA00704-13-00	4/01/14 to 3/31/15	348,682	145,284
5 H80CS00454-12-00	2/01/13 to 1/31/14	1,079,552	449,813
6 H80CS00454-12-02	2/01/13 to 1/31/14	2,159,104	899,627
6 H80CS00454-12-03	2/01/13 to 1/31/14	204,508	170,423
6 H80CS00454-12-04	2/01/13 to 1/31/14	47,500	38,000
6 H80CS00454-12-05	2/01/13 to 1/31/14	58,354	58,354
6 H80CS00454-12-06	2/01/13 to 1/31/14	25,000	25,000
5 H80CS00454-13-00	2/01/14 to 1/31/15	1,131,728	1,131,728
6 H80CS00454-13-01	2/01/14 to 1/31/15	2,263,455	1,123,170
6 H80CS00454-13-02	2/01/14 to 1/31/15	138,976	-
6 H80CS00454-13-03	2/01/14 to 1/31/15	331,380	-
		<u>\$ 8,136,921</u>	<u>\$ 4,244,797</u>

10. Patient Services, Net

For the year ended August 31, 2014, patient services revenue, net, consists of the following:

	Gross Charges	Contractual and Charitable Allowances	Net Revenue
Medicaid	\$ 14,128,774	\$ 346,217	\$ 13,782,557
Medicare	2,747,088	938,767	1,808,321
Self-pay	4,627,427	3,028,111	1,599,316
Other third-party payors	7,093,871	1,300,360	5,793,511
	<u>\$ 28,597,160</u>	<u>\$ 5,613,455</u>	<u>22,983,705</u>
Rhode Island transitional payments			<u>3,895,128</u>
			<u>\$ 26,878,833</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.

(Continued)

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

11. Contract Services

For the year ended August 31, 2014 contract revenue consists of the following:

Rhode Island Department of Health:

Women, Infants, and Children program	\$ 476,980
Family Planning Service	144,294
School-Based Health Center	79,330
Comprehensive Diabetes Patient Risk Monitoring Program	26,000
Cancer Screening	29,394
Cardiovascular	49,998
Other	56,192

Rhode Island Department of Human Services:

Legislative grants	34,799
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Rhode Island Direct:

Uncompensated Care	312,424
Landmark grant	32,250
Medicaid meaningful use	703,250
NHPRI contracts	1,100,463
Lifespan	150,000
Other	441,658
	<u>\$3,637,032</u>

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 \$543,768 for the year ended August 31, 2014.

The Center has a 403b pension plan (a defined contribution plan) covering all employees of Thundermist Health Care Center, Inc. (the Company). Employees are eligible to enroll in the Plan on the date they begin working for the Company. There are no minimum age and no minimum years of service requirements. At this time, there are no employer contributions to be deposited into the Plan. The Company has the option to match a percentage of the employee contribution but has chosen not to make any matching contributions as of August 31, 2014.

(Continued)

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

13. Future Minimum Rental Income

The Center leases space under noncancelable operating leases to various tenants. The leases have various expiration dates.

Year ending August 31,	
2015	\$ 465,203
2016	178,170
2017	177,042
2018	169,552
2019	171,672
Thereafter	4,907,484
	<u>\$6,069,123</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 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, 2014. The estimated cost remaining on this project is approximately \$4.2 million.

The Center leases space under noncancelable operating leases that have terms of 36 months – 384 months. A new lease was entered into during the year, for a new building in Warwick, Rhode Island. Rent expense for the year ended August 31, 2014 amounted to \$376,640. Facilities leased under noncancelable operating leases require future minimum payments as follows:

(Continued)

Thundermist Health Center, Inc. and Related Entities

Notes to the Consolidated Financial Statements August 31, 2014

14. Commitments and Contingencies (Continued)

Year ending August 31,	
2015	\$ 337,920
2016	349,344
2017	345,911
2018	271,684
2019	248,364
Thereafter	4,920,266
	\$6,473,489

15. Related Party Transactions

THC Landlord, LLC has amounts due from THC-MT, LLC for capital improvements and rental income in the amount of \$147,618 as of August 31, 2014.

16. Functional Expense Allocation

Thundermist's statement of activities presents expenses in a format that is beneficial to the Center's Board of Directors, management, and the applicable grantor agencies. In accordance with accounting principles generally accepted in the United States of America, the following represents the functional classification of expenses for the year ended August 31, 2014:

Program Services:	
Medical.....	\$ 23,227,428
Dental.....	6,011,295
Support Services:	
Management and general.....	5,519,015
Fundraising.....	230,996
Total expenses.....	\$ 34,988,734

17. Subsequent Events

The Center evaluated all subsequent events through March 14, 2015, the date the financial statements were available to be issued. The Center noted no additional matters requiring disclosure.

(Concluded)

Supplementary Information

Thundermist Health Center, Inc. and Related Entities

**Consolidated Statement of Functional Expenses
Year Ended August 31, 2014**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Functional expenses:				
Salaries and wages	\$ 16,459,800	\$ 2,075,033	\$ 125,696	\$ 18,660,529
Fringe benefits	4,167,136	510,298	26,591	4,704,025
Consultants and professional services	1,715,614	253,428	11,360	1,980,402
Laboratory	329,291	-	-	329,291
Occupancy	220,046	484,662	-	704,708
Health promotions	8,309	43,216	-	51,525
Consumable supplies	2,705,026	225,173	765	2,930,964
Insurance	32,183	38,414	-	70,597
Telephone	24,240	194,405	1,230	219,875
Travel, conferences and meetings	9,535	27,753	3,386	40,674
Staff training and recruiting	157,615	84,650	470	242,735
Repairs and maintenance	136,307	382,282	-	518,589
Dues and subscriptions	14,576	56,803	2,454	73,833
Printing, publications and postage	21,290	15,251	242	36,783
IT costs	31,124	435,711	-	466,835
Interest	-	170,666	-	170,666
In-kind Women, Infant and Children subsidies	2,020,428	-	-	2,020,428
Miscellaneous	73,228	228,816	58,802	360,846
Bad debt expense and increase in allowance provision	498,689	-	-	498,689
	<u>28,624,437</u>	<u>5,226,561</u>	<u>230,996</u>	<u>34,081,994</u>
Depreciation and amortization	<u>614,286</u>	<u>292,454</u>	<u>-</u>	<u>906,740</u>
Total functional expenses	<u>\$ 29,238,723</u>	<u>\$ 5,519,015</u>	<u>\$ 230,996</u>	<u>\$ 34,988,734</u>

Thundermist Health Center, Inc. and Related Entities

**Consolidating Statement of Financial Position
August 31, 2014**

	Thundermist Health Center, Inc.	THC Development Company, LLC	THC Manager, LLC & Related Entities	Eliminations/ Reclassifications	Total
<u>Assets</u>					
Current Assets:					
Cash and cash equivalents	\$ 2,160,238	\$ -	\$ 144,221	\$ -	\$ 2,304,459
Investments	10,246	-	-	-	10,246
Investment in THC Landlord, 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	1,656,003	-	-	-	1,656,003
DHHS grants receivable	193,309	-	-	-	193,309
Contracts receivable, net	3,892,773	-	-	-	3,892,773
Developer fee receivable	-	788,539	-	(788,539)	-
Prepaid expenses and other assets	428,392	-	-	-	428,392
Due from related party	2,354,158	-	148,777	(2,355,317)	147,618
Loan Receivable	900,000	-	-	(900,000)	-
Total current assets	<u>13,416,299</u>	<u>788,539</u>	<u>293,098</u>	<u>(5,865,036)</u>	<u>8,632,900</u>
Non-Current Assets:					
Due from THC-MT, LLC	<u>1,130,185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,130,185</u>
Property, plant and equipment, net	<u>10,874,410</u>	<u>-</u>	<u>6,274,244</u>	<u>(726,127)</u>	<u>16,422,527</u>
Total assets	<u>\$ 25,420,894</u>	<u>\$ 788,539</u>	<u>\$ 6,567,342</u>	<u>\$ (6,591,163)</u>	<u>\$ 26,185,612</u>
<u>Liabilities and Net Assets</u>					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 1,194,355	\$ -	\$ 823,139	\$ (788,539)	\$ 1,228,955
Accrued compensation	1,676,869	-	-	-	1,676,869
Note payable, current portion	348,306	-	900,000	(900,000)	348,306
Due to related party	1,159	1,625	2,352,533	(2,355,317)	-
Total current liabilities	<u>3,220,689</u>	<u>1,625</u>	<u>4,075,672</u>	<u>(4,043,856)</u>	<u>3,254,130</u>
Long-Term Liabilities:					
Note payable, less current maturities	<u>3,841,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,841,757</u>
Total long-term liabilities	<u>3,841,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,841,757</u>
Total liabilities	<u>7,062,446</u>	<u>1,625</u>	<u>4,075,672</u>	<u>(4,043,856)</u>	<u>7,095,887</u>
Net Assets and Members' Equity:					
Noncontrolling Interest	-	-	2,568,630	(1,813,712)	754,918
Members' Equity	-	786,914	(76,960)	(709,954)	-
Temporarily Restricted Net Assets	160,556	-	-	-	160,556
Unrestricted Net Assets:					
Investment in property, plant and equipment, net of related debt	6,684,347	-	-	4,793,199	11,477,546
Undesignated	11,513,545	-	-	(4,816,840)	6,696,705
Total net assets and members' equity	<u>18,358,448</u>	<u>786,914</u>	<u>2,491,670</u>	<u>(2,547,307)</u>	<u>19,089,725</u>
Total liabilities, net assets and members' equity	<u>\$ 25,420,894</u>	<u>\$ 788,539</u>	<u>\$ 6,567,342</u>	<u>\$ (6,591,163)</u>	<u>\$ 26,185,612</u>

THC Manager, LLC and Related Entities

**Consolidating Statement of Financial Position
August 31, 2014**

	THC Landlord, LLC	THC Manager, LLC	Eliminations/ Reclassifications	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 144,221	\$ -	\$ -	\$ 144,221
Investment in THC Landlord, LLC	-	(76,335)	76,335	-
Investment in THC, MT-LLC	-	100	-	100
Due from related parties	148,877	-	(100)	148,777
Total current assets	293,098	(76,235)	76,235	293,098
Property, plant and equipment, net	6,274,244	-	-	6,274,244
Total assets	\$ 6,567,342	\$ (76,235)	\$ 76,235	\$ 6,567,342
<u>Liabilities and Members' Deficit</u>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 823,139	\$ -	\$ -	\$ 823,139
Note payable	900,000	-	-	900,000
Due to related party	2,351,908	725	(100)	2,352,533
Total current liabilities	4,075,047	725	(100)	4,075,672
Total liabilities	4,075,047	725	(100)	4,075,672
Members' Equity:				
Noncontrolling Interest	-	-	2,568,630	2,568,630
Members' equity	2,492,295	(76,960)	(2,492,295)	(76,960)
Total members' equity	2,492,295	(76,960)	76,335	2,491,670
Total liabilities and members' equity	\$ 6,567,342	\$ (76,235)	\$ 76,235	\$ 6,567,342

Thundermist Health Center, Inc. and Related Entities

**Consolidating Statement of Activities
Year Ended August 31, 2014**

	Thundermist Health Center, Inc.	THC Development Company, LLC	THC Manager, LLC & Related Entities	Eliminations/ Reclassifications	Total
Change in unrestricted net assets:					
Public Revenue and Support:					
DHHS grants	\$ 4,244,798	\$ -	\$ -	\$ -	\$ 4,244,798
Patient services, net	26,878,833	-	-	-	26,878,833
Contract services	3,637,032	-	-	-	3,637,032
Women, Infant and Children Subsidies	2,020,428	-	-	-	2,020,428
Contributions	139,999	-	-	-	139,999
Rental income	427,721	-	161,333	-	589,054
Fundraising	170,595	-	-	-	170,595
Other	48,447	-	-	-	48,447
Total unrestricted public revenue and support	37,567,853	-	161,333	-	37,729,186
Expenses:					
Program Services:					
Medical	23,227,428				23,227,428
Dental	6,011,295				6,011,295
Support Services:					
Management and general	5,364,635	500	174,128	(20,248)	5,519,015
Fundraising	230,996	-	-	-	230,996
Total expenses	34,834,354	500	174,128	(20,248)	34,988,734
Increase (decrease) in unrestricted net assets from operations	2,733,499	(500)	(12,795)	20,248	2,740,452
Non-operating revenue:					
Grant revenue - capital projects	1,739,860	-	-	-	1,739,860
Add back investment loss (gain) representing non-controlling interest	-	-	1,280	(1,653)	(373)
Total non-operating revenue	1,739,860	-	1,280	(1,653)	1,739,487
Increase (decrease) in unrestricted net assets	4,473,359	(500)	(11,515)	18,595	4,479,939
Changes in temporarily restricted net assets:					
Contributions	160,556	-	-	-	160,556
Decrease in temporarily restricted net assets	160,556	-	-	-	160,556
Increase (decrease) in net assets	\$ 4,633,915	\$ (500)	\$ (11,515)	\$ 18,595	\$ 4,640,495

THC Manager, LLC and Related Entities

**Consolidating Statement of Activities and Changes in Members' Equity (Deficit)
Year Ended August 31, 2014**

	THC Landlord, LLC	THC Manager, LLC	Eliminations/ Reclassifications	Total
Unrestricted Revenue and Support:				
Rental income	\$ 161,333	\$ -	\$ -	\$ 161,333
Total unrestricted revenue and support	<u>161,333</u>	<u>-</u>	<u>-</u>	<u>161,333</u>
Expenses:				
Other than personnel services	4,504	-	-	4,504
Investment expense	-	11,515	(11,515)	-
Total expenses	<u>4,504</u>	<u>11,515</u>	<u>(11,515)</u>	<u>4,504</u>
Operating income (loss) prior to depreciation and amortization	156,829	(11,515)	11,515	156,829
Depreciation and Amortization	<u>169,624</u>	<u>-</u>	<u>-</u>	<u>169,624</u>
Increase (decrease) in members' equity (deficit)	<u>(12,795)</u>	<u>(11,515)</u>	<u>11,515</u>	<u>(12,795)</u>
Add back investment loss representing non-controlling interest	<u>-</u>	<u>-</u>	<u>1,280</u>	<u>1,280</u>
Increase (decrease) in members' equity (deficit)	<u>\$ (12,795)</u>	<u>\$ (11,515)</u>	<u>\$ 12,795</u>	<u>\$ (11,515)</u>
Members' equity (deficit), August 31, 2013	\$ 2,505,090	\$ (65,445)	\$ (2,505,090)	\$ (65,445)
Increase (decrease) in members' equity (deficit)	(12,795)	(11,515)	12,795	(11,515)
Members' equity (deficit), August 31, 2014	<u>\$ 2,492,295</u>	<u>\$ (76,960)</u>	<u>\$ (2,492,295)</u>	<u>\$ (76,960)</u>
Non-controlling interest, August 31, 2013	\$ -	\$ -	\$ 2,569,910	\$ 2,569,910
Decrease in non-controlling interest	-	-	(1,280)	(1,280)
Non-controlling interest, August 31, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,568,630</u>	<u>\$ 2,568,630</u>

Single Audit Section

INDEPENDENT AUDITORS' 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, in accordance with the 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, the consolidated financial statements of Thundermist Health Center, Inc., which comprise the consolidated statement of financial position as of August 31, 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the year ended August 31, 2014, and have issued our report thereon dated March 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Thundermist Health Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Health Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Thundermist Health Center, Inc.'s internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal controls* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thundermist Health Center, Inc.'s consolidated financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Providence, Rhode Island
March 14, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

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 Health Center, Inc.'s major federal programs for the year ended August 31, 2014. Thundermist Health Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Thundermist Health Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 Governments, 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 Health Center, Inc.'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Thundermist Health Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Thundermist Health Center, Inc. complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of Thundermist Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Thundermist Health Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Health Center, Inc.'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Marcum LLP

Providence, Rhode Island
March 14, 2015

Thundermist Health Center, Inc.

Schedule of Expenditures of Federal Awards
Year Ended August 31, 2014

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass- Through Grantor's Number	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	\$ 2,497,408
Total U.S. Department of Agriculture			<u>2,497,408</u>
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Centers Program	93.224	H80 CS00454C0	3,858,115
Grants to Provide Outpatient Early Intervention			
Services with Respect to HIV Disease	93.918	H76HA00704C0	386,682
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	C8ACS23802	1,739,860
Passed through Rhode Island Department of Health:			
Health Care Innovation Awards	93.610	N/A	33,905
Family Planning Services	93.217	N/A	144,294
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	N/A	13,982
HIV Prevention Activities	93.940	N/A	<u>41,175</u>
Total U.S. Department of Health and Human Services			<u>6,218,013</u>
Total Federal Expenditures			<u>\$ 8,715,421</u>

See notes to the schedule of expenditures of federal awards.

Thundermist Health Center, Inc.

Notes to the Schedule of Expenditures of Federal Awards Year Ended August 31, 2014

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 #93.918 have been tested as major program expenditures for the fiscal year ended August 31, 2014.

Thundermist Health Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended August 31, 2014**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Material Weakness identified? yes X no
- Significant Deficiency identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material Weakness identified? yes X no
- Significant Deficiency identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major program:

Special Supplemental Nutrition Program for Women, Infants and Children 10.557
Services with Respect to HIV Disease 93.918

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes no

Thundermist Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended August 31, 2014

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.

Prior year findings:

None noted.