



AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS AND
UNIFORM GUIDANCE
AUGUST 31, 2019 AND 2018**

THUNDERMIST HEALTH CENTER AND AFFILIATES

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August 31, 2019 and 2018

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**Unmodified Opinion on Consolidated Financial Statements Accompanied by
Other Information – Not-For-Profit Entity**

Independent Auditor's Report

To the Board of Directors of
Thundermist Health Center and Affiliates:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Thundermist Health Center (a Rhode Island corporation, not for profit) and Affiliates (collectively, the Agency) which comprise the consolidated statements of financial position as of August 31, 2019 and 2018, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditor's 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 Health Center and Affiliates as of August 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended August 31, 2019, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2020, on our consideration of the Agency'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 solely 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 effectiveness of the Agency's 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 the Agency's internal control over financial reporting and compliance.

AAFCPA, Inc.

Westborough, Massachusetts
February 20, 2020

THUNDERMIST HEALTH CENTER AND AFFILIATES

Consolidated Statements of Financial Position
August 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 6,234,274	\$ 588,570	\$ 6,822,844	\$ 7,847,203	\$ 246,569	\$ 8,093,772
Accounts receivable - patient services, net of allowances for uncollectible accounts of approximately \$882,000 and \$674,000 as of August 31, 2019 and 2018, respectively	3,944,074	-	3,944,074	2,890,049	-	2,890,049
Accounts receivable - grants, contracts and other	823,197	-	823,197	667,190	-	667,190
Prepaid expenses	400,971	-	400,971	264,495	-	264,495
Total current assets	<u>11,402,516</u>	<u>588,570</u>	<u>11,991,086</u>	<u>11,668,937</u>	<u>246,569</u>	<u>11,915,506</u>
Restricted Cash	482,933	-	482,933	452,029	-	452,029
Investment in LLC	-	-	-	160,795	-	160,795
Property and Equipment:						
Land and improvements	1,650,572	-	1,650,572	1,254,717	-	1,254,717
Buildings and improvements	32,762,227	-	32,762,227	26,325,407	-	26,325,407
Computer and other equipment	5,971,018	-	5,971,018	5,619,606	-	5,619,606
Leasehold improvements	1,530,930	-	1,530,930	1,520,035	-	1,520,035
Construction in process	474,314	-	474,314	1,751,782	-	1,751,782
	42,389,061	-	42,389,061	36,471,547	-	36,471,547
Less - accumulated depreciation	9,577,741	-	9,577,741	8,739,297	-	8,739,297
Net property and equipment	<u>32,811,320</u>	<u>-</u>	<u>32,811,320</u>	<u>27,732,250</u>	<u>-</u>	<u>27,732,250</u>
Total assets	<u>\$ 44,696,769</u>	<u>\$ 588,570</u>	<u>\$ 45,285,339</u>	<u>\$ 40,014,011</u>	<u>\$ 246,569</u>	<u>\$ 40,260,580</u>
Liabilities and Net Assets						
Current Liabilities:						
Current portion of long-term debt	\$ 630,391	\$ -	\$ 630,391	\$ 495,502	\$ -	\$ 495,502
Accounts payable	951,022	-	951,022	1,633,115	-	1,633,115
Accrued expenses	3,408,684	-	3,408,684	2,866,132	-	2,866,132
Total current liabilities	<u>4,990,097</u>	<u>-</u>	<u>4,990,097</u>	<u>4,994,749</u>	<u>-</u>	<u>4,994,749</u>
Deferred Rent Payable	-	-	-	349,036	-	349,036
Long-Term Debt, net of current portion and debt issuance costs	11,716,232	-	11,716,232	8,077,329	-	8,077,329
Total liabilities	<u>16,706,329</u>	<u>-</u>	<u>16,706,329</u>	<u>13,421,114</u>	<u>-</u>	<u>13,421,114</u>
Net Assets:						
Without donor restrictions:						
Operating	8,030,923	-	8,030,923	8,123,202	-	8,123,202
Property and equipment	19,959,517	-	19,959,517	18,469,695	-	18,469,695
Total without donor restrictions	<u>27,990,440</u>	<u>-</u>	<u>27,990,440</u>	<u>26,592,897</u>	<u>-</u>	<u>26,592,897</u>
With donor restrictions	-	588,570	588,570	-	246,569	246,569
Total net assets	<u>27,990,440</u>	<u>588,570</u>	<u>28,579,010</u>	<u>26,592,897</u>	<u>246,569</u>	<u>26,839,466</u>
Total liabilities and net assets	<u>\$ 44,696,769</u>	<u>\$ 588,570</u>	<u>\$ 45,285,339</u>	<u>\$ 40,014,011</u>	<u>\$ 246,569</u>	<u>\$ 40,260,580</u>

The accompanying notes are an integral part of these consolidated statements.

THUNDERMIST HEALTH CENTER AND AFFILIATES

 Consolidated Statements of Activities
 For the Years Ended August 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
Net patient service revenue	\$ 56,568,105	\$ -	\$ 56,568,105	\$ 45,671,311	\$ -	\$ 45,671,311
Grants and contracts	9,528,485	358,570	9,887,055	8,729,942	16,569	8,746,511
Fundraising	568,979	-	568,979	158,850	-	158,850
Other revenue	330,344	-	330,344	338,856	-	338,856
Rental income	126,028	-	126,028	133,100	-	133,100
Net assets released from restrictions	16,569	(16,569)	-	69,192	(69,192)	-
Total operating revenue	<u>67,138,510</u>	<u>342,001</u>	<u>67,480,511</u>	<u>55,101,251</u>	<u>(52,623)</u>	<u>55,048,628</u>
Operating Expenses:						
Program services:						
Medical	36,768,969	-	36,768,969	30,889,135	-	30,889,135
Dental	10,197,314	-	10,197,314	8,669,198	-	8,669,198
Pharmacy	9,758,517	-	9,758,517	6,711,373	-	6,711,373
Total program services	<u>56,724,800</u>	<u>-</u>	<u>56,724,800</u>	<u>46,269,706</u>	<u>-</u>	<u>46,269,706</u>
Support services:						
General and administrative	7,717,468	-	7,717,468	6,957,521	-	6,957,521
Fundraising	386,168	-	386,168	207,851	-	207,851
Total support services	<u>8,103,636</u>	<u>-</u>	<u>8,103,636</u>	<u>7,165,372</u>	<u>-</u>	<u>7,165,372</u>
Total operating expenses before depreciation	64,828,436	-	64,828,436	53,435,078	-	53,435,078
Depreciation	1,598,879	-	1,598,879	1,522,396	-	1,522,396
Total operating expenses	<u>66,427,315</u>	<u>-</u>	<u>66,427,315</u>	<u>54,957,474</u>	<u>-</u>	<u>54,957,474</u>
Changes in net assets from operations	<u>711,195</u>	<u>342,001</u>	<u>1,053,196</u>	<u>143,777</u>	<u>(52,623)</u>	<u>91,154</u>
Non-Operating Revenue:						
Gain on dissolution of LLC	683,463	-	683,463	-	-	-
Capital grants	2,885	-	2,885	271,665	230,000	501,665
Share of unrealized gain in investment in LLC	-	-	-	22,990	-	22,990
Total non-operating revenue	<u>686,348</u>	<u>-</u>	<u>686,348</u>	<u>294,655</u>	<u>230,000</u>	<u>524,655</u>
Changes in net assets	<u>\$ 1,397,543</u>	<u>\$ 342,001</u>	<u>\$ 1,739,544</u>	<u>\$ 438,432</u>	<u>\$ 177,377</u>	<u>\$ 615,809</u>

The accompanying notes are an integral part of these consolidated statements.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Consolidated Statements of Changes in Net Assets
For the Years Ended August 31, 2019 and 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets , August 31, 2017	\$ 26,154,465	\$ 69,192	\$ 26,223,657
Changes in net assets	<u>438,432</u>	<u>177,377</u>	<u>615,809</u>
Net Assets , August 31, 2018	26,592,897	246,569	26,839,466
Changes in net assets	<u>1,397,543</u>	<u>342,001</u>	<u>1,739,544</u>
Net Assets , August 31, 2019	<u>\$ 27,990,440</u>	<u>\$ 588,570</u>	<u>\$ 28,579,010</u>

THUNDERMIST HEALTH CENTER AND AFFILIATES

Consolidated Statements of Cash Flows
For the Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 1,739,544	\$ 615,809
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,598,879	1,522,396
Amortization of debt issuance costs charged to interest expense	13,373	13,371
Bad debts	1,381,008	995,035
Capital grants	(2,885)	(501,665)
Gain on dissolution of LLC	(683,463)	-
Share of unrealized gain in investment in LLC	-	(22,990)
Write-off of deferred rent payable	(329,867)	-
Changes in operating assets and liabilities:		
Accounts receivable - patient services	(2,435,033)	1,155,690
Accounts receivable - grants, contracts and other	(156,007)	505,368
Prepaid expenses	(136,476)	195,277
Accounts payable	(336,754)	(211,605)
Accrued expenses	542,552	285,401
Net cash provided by operating activities	<u>1,194,871</u>	<u>4,552,087</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(6,669,692)	(4,181,087)
Distribution from dissolution and investment in LLC	490,662	50,000
Net deposits to and interest earned on restricted cash	(30,904)	(229,630)
Net cash used in investing activities	<u>(6,209,934)</u>	<u>(4,360,717)</u>
Cash Flows from Financing Activities:		
Capital grants	2,885	641,665
Proceeds from long-term debt	4,287,119	2,226,075
Payments on deferred rent	(19,169)	(19,169)
Principal payments on long-term debt	(526,700)	(455,145)
Net cash provided by financing activities	<u>3,744,135</u>	<u>2,393,426</u>
Net Change in Cash and Cash Equivalents	(1,270,928)	2,584,796
Cash and Cash Equivalents:		
Beginning of year	<u>8,093,772</u>	<u>5,508,976</u>
End of year	<u>\$ 6,822,844</u>	<u>\$ 8,093,772</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 483,913</u>	<u>\$ 303,728</u>
Construction in process placed in service	<u>\$ 1,751,782</u>	<u>\$ 3,789,341</u>
Distribution from dissolution of LLC applied towards property purchase	<u>\$ 353,596</u>	<u>\$ -</u>
Property and equipment additions financed through accounts payable and accrued expenses	<u>\$ 505,180</u>	<u>\$ 850,519</u>

The accompanying notes are an integral part of these consolidated statements.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Consolidated Statement of Functional Expenses

For the Year Ended August 31, 2019

(With Summarized Comparative Totals for the Year Ended August 31, 2018)

	2019						2018	
	Program Services			Total Program Services	General and Administrative	Fundraising	Total Expenses	Total
	Medical	Dental	Pharmacy					
Personnel and Related Costs:								
Salaries	\$ 24,381,375	\$ 5,925,850	\$ -	\$ 30,307,225	\$ 3,695,771	\$ 240,156	\$ 34,243,152	\$ 29,155,957
Payroll taxes and fringe benefits	6,415,608	1,360,422	-	7,776,030	1,137,522	42,146	8,955,698	7,538,173
Purchased and contracted services	803,929	321,284	-	1,125,213	91,395	922	1,217,530	1,040,300
Staff training and development	146,087	17,395	-	163,482	246,270	366	410,118	338,296
Total personnel and related costs	31,746,999	7,624,951	-	39,371,950	5,170,958	283,590	44,826,498	38,072,726
Occupancy:								
Rent and utilities	289,085	298,196	-	587,281	411,491	-	998,772	964,523
Repairs and maintenance	213,487	211,940	-	425,427	459,001	-	884,428	631,023
Interest	-	-	-	-	497,286	-	497,286	317,099
Property taxes	50	-	-	50	313,378	-	313,428	282,405
Insurance	84,481	2,159	800	87,440	75,508	-	162,948	143,352
Minor equipment	670	852	-	1,522	58,911	-	60,433	50,469
Total occupancy	587,773	513,147	800	1,101,720	1,815,575	-	2,917,295	2,388,871
Other:								
Medical supplies	857,301	583,023	5,522,190	6,962,514	-	-	6,962,514	4,808,343
Pharmacy fees	-	-	4,235,527	4,235,527	-	-	4,235,527	3,128,297
Bad debts	1,093,482	287,526	-	1,381,008	-	-	1,381,008	995,035
IT costs	830,467	303,694	-	1,134,161	58,403	-	1,192,564	868,116
Professional services	528,449	-	-	528,449	513,138	-	1,041,587	1,204,141
Lab expense	83	520,937	-	521,020	-	-	521,020	411,179
Dues, subscriptions and miscellaneous	296,450	99,756	-	396,206	18,853	420	415,479	387,490
Communications	202,378	48,607	-	250,985	108,467	1,877	361,329	434,933
Office, supplies and related	182,177	88,647	-	270,824	13,201	-	284,025	158,199
Recruitment	188,637	72,680	-	261,317	9,488	7,616	278,421	241,789
Travel	99,105	12,700	-	111,805	1,667	3,255	116,727	100,355
Marketing	76,010	22,315	-	98,325	4,291	5,424	108,040	89,749
Printing and postage	49,097	17,820	-	66,917	3,427	15,689	86,033	79,108
Fundraising	-	-	-	-	-	68,297	68,297	50,914
Patient transportation	30,561	1,511	-	32,072	-	-	32,072	15,433
Corporate taxes	-	-	-	-	-	-	-	400
Total other	4,434,197	2,059,216	9,757,717	16,251,130	730,935	102,578	17,084,643	12,973,481
Total expenses before depreciation	36,768,969	10,197,314	9,758,517	56,724,800	7,717,468	386,168	64,828,436	53,435,078
Depreciation	1,104,687	329,690	9,314	1,443,691	155,188	-	1,598,879	1,522,396
Total expenses	\$ 37,873,656	\$ 10,527,004	\$ 9,767,831	\$ 58,168,491	\$ 7,872,656	\$ 386,168	\$ 66,427,315	\$ 54,957,474

The accompanying notes are an integral part of these consolidated statements.

THUNDERMIST HEALTH CENTER AND AFFILIATES

 Consolidated Statement of Functional Expenses
 For the Year Ended August 31, 2018

	Program Services			Total Program Services	General and Administrative	Fundraising	Total Expenses
	Medical	Dental	Pharmacy				
Personnel and Related Costs:							
Salaries	\$ 20,627,906	\$ 5,112,869	\$ -	\$ 25,740,775	\$ 3,314,423	\$ 100,759	\$ 29,155,957
Payroll taxes and fringe benefits	5,521,322	1,218,561	-	6,739,883	771,455	26,835	7,538,173
Purchased and contracted services	624,192	333,502	-	957,694	82,606	-	1,040,300
Staff training and development	129,869	11,626	-	141,495	196,702	99	338,296
Total personnel and related costs	26,903,289	6,676,558	-	33,579,847	4,365,186	127,693	38,072,726
Occupancy:							
Rent and utilities	260,690	290,093	-	550,783	413,740	-	964,523
Repairs and maintenance	154,813	91,217	-	246,030	384,993	-	631,023
Interest	-	-	-	-	317,099	-	317,099
Property taxes	53,228	-	-	53,228	229,177	-	282,405
Insurance	69,908	2,141	742	72,791	70,561	-	143,352
Minor equipment	408	748	-	1,156	49,313	-	50,469
Total occupancy	539,047	384,199	742	923,988	1,464,883	-	2,388,871
Other:							
Medical supplies	771,871	454,138	3,582,334	4,808,343	-	-	4,808,343
Pharmacy fees	-	-	3,128,297	3,128,297	-	-	3,128,297
Bad debts	734,017	261,018	-	995,035	-	-	995,035
IT costs	584,187	206,494	-	790,681	77,435	-	868,116
Professional services	454,791	-	-	454,791	749,350	-	1,204,141
Lab expense	-	411,179	-	411,179	-	-	411,179
Dues, subscriptions and miscellaneous	269,423	85,867	-	355,290	31,643	557	387,490
Communications	159,383	48,921	-	208,304	226,144	485	434,933
Office, supplies and related	105,993	37,968	-	143,961	14,238	-	158,199
Recruitment	170,467	57,288	-	227,755	13,690	344	241,789
Travel	79,175	16,102	-	95,277	4,131	947	100,355
Marketing	62,998	15,282	-	78,280	5,731	5,738	89,749
Printing and postage	39,217	13,628	-	52,845	5,090	21,173	79,108
Fundraising	-	-	-	-	-	50,914	50,914
Patient transportation	14,877	556	-	15,433	-	-	15,433
Corporate taxes	400	-	-	400	-	-	400
Total other	3,446,799	1,608,441	6,710,631	11,765,871	1,127,452	80,158	12,973,481
Total expenses before depreciation	30,889,135	8,669,198	6,711,373	46,269,706	6,957,521	207,851	53,435,078
Depreciation	998,840	343,782	3,911	1,346,533	175,863	-	1,522,396
Total expenses	\$ 31,887,975	\$ 9,012,980	\$ 6,715,284	\$ 47,616,239	\$ 7,133,384	\$ 207,851	\$ 54,957,474

The accompanying notes are an integral part of these consolidated statements.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

Thundermist Health Center (the Health Center) provides healthcare services to individuals primarily located in Woonsocket, Wakefield and West Warwick, Rhode Island through its multiple service sites in these communities. The Health Center has been providing a broad range of healthcare services including medical, behavioral health, and dental care to a largely medically underserved population since it was incorporated in 1969. The Health Center seeks to improve the health of the community by delivering exceptional healthcare, removing barriers to that care, and promoting healthy lifestyles.

THC Development Company, LLC (the Development Company) is a limited liability company established to provide development services to THC Landlord, LLC (the Landlord) (see below). The Health Center is the sole member of the Development Company.

The Landlord is a limited liability company that owns the building located in West Warwick, Rhode Island. The Health Center owns 5% of the Landlord and is identified as the limited member of the Landlord.

THC Manager, LLC (the Manager) is a limited liability company that owns 90% of the Landlord and 0.01 % of THC-MT, LLC (the Master Tenant). The Manager acts as the managing member for both the Landlord and the Master Tenant.

The Master Tenant is a for-profit entity formed to lease the Project from the Landlord which owns a 5% interest in the Landlord and the Health Center is a 99.99% Investor Member.

NONPROFIT STATUS

The Health Center is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC. The Health Center is also exempt from state income taxes. Donors may deduct contributions made to the Health Center within IRC requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Agency (see below) prepares their consolidated financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

The consolidated financial statements include the accounts of the Health Center, the Development Company, the Landlord, the Manager and the Master Tenant (collectively, the Agency). The Master Tenant leases property from the Landlord and subleases the building to various tenants including the Health Center. All significant inter-company transactions and balances have been eliminated in the accompanying consolidated financial statements.

Advertising

The Agency expenses advertising costs as they are incurred, which are included in marketing in the accompanying consolidated statements of functional expenses.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

During fiscal year 2019, the Agency adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU modified the current guidance over several criteria, of which the following affected the Agency's consolidated financial statements:

- Net assets are segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets (see Note 2).
- Qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the consolidated statement of financial position date (see Note 15).
- A more detailed explanation of the methods used to allocate costs among program, general and administrative, and fundraising functions has been included in the notes to the consolidated financial statements (see page 12).

The adoption of this ASU did not impact the Agency's net assets balance, changes in net assets, or cash flows for the year ended August 31, 2019. This ASU has been applied retrospectively to all periods presented. This ASU provides an option to omit the disclosures about liquidity and availability of resources for the fiscal year 2018 consolidated financial statements.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents do not include restricted cash.

Restricted Cash

Restricted cash consists of amounts restricted to fund future unemployment and self-insurance for employee health insurance claims (see Note 4).

Accounts Receivable – Patient Services and Allowance for Uncollectable Accounts

Accounts receivable are stated at unpaid balances, less reserves for uncollectable accounts and contractual allowances. The Health Center provides for losses on accounts receivable using the allowance method. The allowance is based on historical bad debts, third-party contracts, and other circumstances, which may affect the ability of patients to meet their obligations. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is the Health Center's policy to write-off uncollectible accounts receivable when management determines the receivable will not be collected. Recoveries of receivables previously written off are recorded as revenue when received.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable – Grants, Contracts and Other

The Health Center receives grants from various donors. The allowance for uncollectable accounts, if any, is based on management's best estimate of the amount of probable credit losses on grants, contracts and other receivables. There was no allowance at August 31, 2019 and 2018.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Renewals and improvements are capitalized, while repairs and maintenance are expensed as they are incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	10 - 15 years
Buildings and improvements	15 - 40 years
Computer and other equipment	3 - 10 years
Leasehold improvements	Life of lease or remaining life of building

Construction in Process

Construction in process at August 31, 2019 and 2018, consists of various improvements to three of the Health Center's satellite locations. Renovations and improvements on these projects are expected to continue through 2020 at an estimated total cost of \$3,500,000. During fiscal years 2019 and 2018, two of these projects were completed and placed into service. No depreciation is recognized on the projects until they are placed in service.

Debt Issuance Costs

The Health Center incurred certain debt issuance costs as a result of the long-term debt agreements (see Note 6). Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method. Amortization expense was \$13,373 and \$13,371 for the years ended August 31, 2019 and 2018, respectively (which is included in interest expense in the accompanying consolidated statements of functional expenses). Amortization is expected to be \$13,371 in fiscal year 2020.

Fair Value Measurements

The Agency follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Agency would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Agency uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Agency. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable and which require significant judgment or estimation.

Investment in LLC

In December 2015, the Health Center entered into a joint venture agreement with two partners to become a 25% owner of Clinton Partners LLC (the LLC). The LLC was formed to purchase, manage and lease a building (the Property). The Property was leased to all three owners (see Note 5) through July 2019. The Health Center recorded its investment in the LLC under the equity method of accounting using Level 3 inputs. Under this method, the Health Center increased or decreased its investment by its share of the LLC's net income or loss, as well as additional contributions and distributions.

In July 2019, the LLC was dissolved, and the Health Center purchased the Property using proceeds from the dissolution combined with a \$2,840,000 note payable from the Washington Trust Company (see Note 6). The Health Center recognized a gain of \$353,596 from the dissolution of the LLC, which is included in gain on dissolution of LLC in the accompanying consolidated statement of activities for the year ended August 31, 2019. For the year ended August 31, 2018, the Health Center had a gain of \$22,990 in the LLC. Any gains or losses were shown net as share of unrealized gain in investment in LLC in the accompanying consolidated statements of activities.

All Other Assets and Liabilities

The carrying value of all other assets and liabilities does not differ materially from their estimated fair value and are considered Level 1 in the fair value hierarchy. As of August 31, 2019, all assets and liabilities of the Agency are considered Level 1 in the fair value hierarchy.

Revenue Recognition

Patient services are recorded as services are provided. The Health Center establishes fees for services to patients based upon prevailing rates. Net patient service revenue reflects the amounts to be collected after provisions for contractual allowances and free care. Contractual allowances are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required based on final settlements. In general, the Health Center is reimbursed from third party payors based on negotiated rates, procedural fee schedules and discounted charges. Contractual allowances were approximately \$17,600,000 and \$14,700,000 for the years ended August 31, 2019 and 2018, respectively.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Rental revenue is recognized for rentals as it becomes due. Rental payments received in advance are deferred until earned. All leases between the Master Tenant, the Landlord and tenants of the Property are accounted for as operating leases.

Contract revenue is recorded over the contract period as services are provided. Grants and contracts without donor restrictions are recorded as revenue when received or unconditionally pledged.

Restricted grants are recorded as revenue with donor restrictions and net assets when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred or as time restrictions or program restrictions have lapsed and are shown as net assets released from restrictions in the accompanying consolidated statements of activities. Restricted grants received and satisfied in the same period are included in net assets without donor restrictions.

The State of Rhode Island (the State) provides vouchers to participants of the Health Center's Women, Infants and Children (WIC) program. The value of these vouchers for fiscal years 2019 and 2018 was approximately \$1,320,000 and \$1,610,000, respectively. These amounts are not reflected in the accompanying consolidated financial statements.

Fundraising revenue and expenses from events are recorded as revenues and expenses without donor restrictions when revenues are received and expenses are incurred. All other revenue is recorded when earned.

Measuring Charity Care

The Health Center has a policy of providing free care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient prior to the services being rendered. Since the Health Center does not expect payment, estimated charges for free care are not included in net patient service revenue. The approximate amount of free care services provided was \$4,136,000 and \$3,636,000 for the years ended August 31, 2019 and 2018, respectively. The approximate cost of providing these services was \$4,567,000 and \$3,810,000 during the years ended August 31, 2019 and 2018, respectively. The cost of providing free care was calculated based upon a cost-to-charge ratio. The Health Center received partial reimbursement from the State for these services of \$3,493,013 and \$3,469,152 under the transition program during the years ended August 31, 2019 and 2018, respectively.

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function. The consolidated financial statements contain certain categories of expenses that are attributable to program, general and administrative, and fundraising functions; therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and fringe benefits, which are allocated based on an estimate of time and level of effort spent on the Agency's functions, and occupancy costs, which are allocated based on square footage occupied by function.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at August 31, 2019 and 2018. The Agency's information and tax returns are subject to examination by the Federal and state jurisdiction.

Consolidated Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of healthcare and related services are reported as operating revenue and operating expenses in the accompanying consolidated statements of activities. Peripheral or incidental transactions are reported as non-operating revenue. Non-operating revenue includes capital grants for long-lived assets and unrealized gain on share of investment and gain on dissolution of the LLC.

Subsequent Events

Subsequent events have been evaluated through February 20, 2020, which is the date the consolidated financial statements were available to be issued. There were no events that met the criteria for recognition in the consolidated financial statements, except as noted in Notes 6 and 17.

2. NET ASSETS

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its net assets without donor restriction into the following categories:

Operating net assets represent funds available to carry on the operations of the Agency.

Property and equipment net assets reflect and account for the activities relating to the Agency's investment in the LLC and property and equipment, net of related debt.

Net Assets With Donor Restrictions

The Health Center receives contributions and grants which are designated by donors for specific purposes or time periods. These contributions are recorded as net assets with donor restrictions until they are expended for their designated purposes or as the time period lapses. Net assets with donor restrictions balances were restricted as follows as of August 31:

	<u>2019</u>	<u>2018</u>
Purpose	\$ 358,570	\$ 16,569
Capital	<u>230,000</u>	<u>230,000</u>
Total net assets with donor restrictions	<u>\$ 588,570</u>	<u>\$ 246,569</u>

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

3. FUNDING

The Agency received 8% and 10% of its total operating revenue from the U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA) during fiscal years 2019 and 2018, respectively. Payments to the Agency are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the consolidated financial position of the Agency as of August 31, 2019 and 2018, or on the changes in their net assets for the years then ended.

See Note 8 for additional concentrations.

Charges made to most third party payors for patient services are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the effects of such determinations or adjustments, if any, will not have a material effect on the consolidated financial position of the Agency as of August 31, 2019 and 2018, or on the changes in their net assets for the years then ended.

The Health Center is entitled to receive Medicare settlements based upon the submission of cost reports. These settlements are not readily determinable and are therefore recorded as revenue when received.

The Health Center receives reimbursement from the State under the Medicaid program. The Health Center is reimbursed under the Prospective Payment System (PPS). The Health Center settles with the State upon the submission of cost reports. The Health Center has estimated that it is owed \$959,103 from the State as of August 31, 2019, and owed \$132,551 to the State as a result of overpayments as of August 31, 2018, which is included in accounts receivable - patient services in the accompanying consolidated statements of financial position. Subsequent to year end, the Health Center received an advance payment on fiscal year 2019 claims of approximately \$3,220,000 which is subject to final settlement in August 2020 (see Note 17).

4. INSURANCE

The Health Center is self-insured for unemployment claims through the Non Profit Agencies Trust and holds a restricted cash reserve in a trust for these claims. Claim liabilities are received from the State and automatically paid from the reserve. As of August 31, 2019 and 2018, the balance in the restricted cash reserve was \$366,933 and \$372,029, respectively, which is included in restricted cash in the accompanying consolidated statements of financial position. The restricted cash reserve is available to fund future unemployment claims.

Beginning June 1, 2018, the Health Center uses a combination of insurance and self-insurance for employee health insurance. The Health Center is responsible for paying claims covered by the plan up to a maximum amount of \$75,000 per person per plan year. Claims in excess of the maximum amount are covered under a stop loss insurance coverage provision. As of August 31, 2019 and 2018, the Health Center recorded a claim reserve liability of \$175,790 and \$193,875, respectively, which is included in accrued expenses in the accompanying consolidated statements of financial position. As of August 31, 2019 and 2018, the Health Center held \$116,000 and \$80,000, respectively, in cash reserves under the plan to cover annual claims which is included in restricted cash in the accompanying consolidated statements of financial position.

5. LEASE AGREEMENTS

The Health Center has lease arrangements for the following locations:

- Office space in Warwick, Rhode Island under a non-cancelable operating lease that expired in June 2019. Monthly payments under the terms of this agreement were \$8,571. The Agency is currently renting as a tenant-at-will.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

5. LEASE AGREEMENTS (Continued)

- Dental and program spaces in West Warwick, Rhode Island under non-cancelable operating leases that expire in March and May 2020, respectively. Monthly payments under the terms of these agreements range from \$2,200 to \$5,550 for the years ended August 31, 2019 and 2018, and for the remainder of the lease.
- Dental clinic space in Providence, Rhode Island under an agreement that expires in March 2020. Monthly payments under the terms of this agreement are \$850 through the end of the lease.
- WIC space under an agreement that expired in July 2018. Monthly payments under the terms of this agreement were \$420.
- The Health Center leased additional WIC and office space in Woonsocket, Rhode Island under a non-cancelable operating lease set to expire in April 2021. This space was leased from the LLC until the Health Center purchased the Property in July 2019. Monthly payments under the terms of this lease agreement were \$6,885 through the purchase date.
- The Health Center leased additional office space in Woonsocket, Rhode Island under a non-cancelable operating lease set to expire in June 2023. This space was leased from the LLC until the Health Center purchased the Property in July 2019. Monthly payments under the terms of this agreement were \$3,299 through the purchase date.
- The Health Center leased additional dental and office space in Woonsocket, Rhode Island under a non-cancelable operating lease set to expire in November 2026. This space was leased from the LLC until the Health Center purchased the Property in July 2019. Monthly payments under the terms of this lease agreement were \$15,304 through the purchase date. The Health Center had also received \$383,635 from the LLC towards renovations. This amount was due back to the management company in monthly installments of \$1,596 through the original full lease term. Amounts due were reflected as deferred rent payable in the accompanying consolidated statements of financial position. As part of the dissolution of the LLC, the remaining deferred rent payable of \$329,867 was written off and is included in gain on dissolution of LLC in the accompanying consolidated statement of activities for the year ended August 31, 2019.

Under the terms of some of these lease agreements, the Health Center is responsible for its share of operating costs, taxes and utilities.

Parking Spaces

The Health Center leases parking spaces under various agreements that expire at various intervals through January 2020. Monthly payments under the terms of these agreements ranged from \$700 to \$1,000 for fiscal years 2019 and 2018. In subsequent years, monthly payments are expected to remain the same.

Total Rent Expense

Rent expense for the years ended August 31, 2019 and 2018, was \$456,100 and \$525,923, respectively, and is included in rent and utilities in the accompanying consolidated statements of functional expenses. Future minimum lease payments for fiscal year 2020 are \$66,500.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

5. LEASE AGREEMENTS (Continued)

Rental Income

The Agency leased space under multiple operating leases to various tenants. The leases expired at various intervals through May 2019.

As part of the purchase of the building previously owned by the LLC, multiple operating leases to various tenants were transferred to the Health Center. The leases expire at intervals through May 2023. The leases contain renewal options.

Future minimum lease payments are as follows:

<u>Fiscal Year</u>	
2020	\$ 256,964
2021	229,956
2022	194,970
2023	<u>105,820</u>
	<u>\$ 787,710</u>

6. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
\$3,153,000 construction note payable to The Washington Trust Company, with an interest rate of 4.25% through the term loan conversion date of September 6, 2018. Beginning on September 6, 2018, interest adjusted to 5.74%, due in monthly principal payments of \$10,510, plus interest. There is a balloon payment of approximately \$2,500,000 due in September 2023. The note is secured by mortgages on the Health Center's property and substantially all the assets of the Health Center.	\$ 3,026,880	\$ 3,153,000
\$2,840,000 note payable to The Washington Trust Company, with an interest rate of 4.76%, due in monthly principal payments of \$9,467, plus interest. There is a balloon payment of approximately \$2,035,000 due in August 2026. The note is secured by substantially all assets of the Health Center and a mortgage on a property.	2,830,533	-
\$2,400,000 construction note payable to The Washington Trust Company. Interest accrued on this note through September 2018, at the bank's prime rate (5.00% at August 31, 2018). Beginning in September 2018, after the construction period, interest accrues at 5.18%. Beginning in April 2019, principal payments of \$8,000, plus interest, were due monthly through March 2044.	2,360,000	952,883

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

6. LONG-TERM DEBT (Continued)

	<u>2019</u>	<u>2018</u>
\$4,135,000 bond payable to The Washington Trust Company, with interest at 4.46%. Monthly principal payments of \$17,229, plus interest, are due through August 1, 2030. The note is secured by a first mortgage on property and substantially all assets of the Health Center.	2,274,250	2,481,000
\$2,198,037 note payable to The Washington Trust Company, with an interest rate of 4.38% through October 2020, due in monthly principal payments of \$7,327, plus interest. There is a balloon payment of approximately \$1,758,000 due in November 2020. The note is secured by substantially all assets of the Health Center and a mortgage on a property.	1,868,331	1,956,253
\$750,000 note payable to The Washington Trust Company, with an interest rate of 4.22%. Monthly principal and interest payments of \$13,887 were due through December 27, 2018. The note was secured by substantially all assets of the Health Center.	-	56,439
	<u>12,359,994</u>	<u>8,599,575</u>
Less - unamortized debt issuance costs	13,371	26,744
Less - current portion	<u>630,391</u>	<u>495,502</u>
	<u>\$ 11,716,232</u>	<u>\$ 8,077,329</u>

Future minimum payments over the next five years are as follows:

2020	\$ 630,391
2021	\$ 2,315,553
2022	\$ 542,470
2023	\$ 542,470
2024	\$ 542,470
Thereafter	\$ 7,786,640

All of the long-term debt with the Washington Trust Company is cross-collateralized. The long-term debt agreements have certain covenants with which the Health Center must comply. The Health Center was not in compliance with one of the covenants for both of the years ended August 31, 2019 and 2018, and received a waiver for both years from The Washington Trust Company. The waiver for the year ended August 31, 2019, was received on February 19, 2020.

7. NOTE PAYABLE TO A BANK

The Health Center has available up to \$500,000 under a revolving line of credit agreement with a bank which terminates upon demand by the lender. Borrowings under this agreement are due on demand and interest is payable monthly at the bank's prime rate (5.25% and 5.00% at August 31, 2019 and 2018, respectively). The line of credit is secured by substantially all assets of the Health Center and a mortgage on a property. There was no balance outstanding on the line of credit as of August 31, 2019 and 2018.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

8. CONCENTRATIONS

The Agency maintains its operating cash balances in Rhode Island banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At times during the year, cash balances exceeded the insured amounts. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on its operating cash balances.

Approximately 14% and 12% of the Health Center's grants, contracts and other receivables were due from the Rhode Island Department of Health at August 31, 2019 and 2018, respectively.

The Health Center's net patient service revenue and accounts receivable - patient services at August 31, 2019 and 2018, consist of the following concentrations:

<u>Payor</u>	<u>2019</u>		<u>2018</u>	
	<u>Percentage of Net Patient Service Revenue</u>	<u>Percentage of Gross Accounts Receivable</u>	<u>Percentage of Net Patient Service Revenue</u>	<u>Percentage of Gross Accounts Receivable</u>
Medicaid	33%	8%	32%	18%
Neighborhood Health Plan of Rhode Island	14%	11%	16%	11%
United Health	9%	14%	9%	16%
Medicare	5%	19%	5%	18%

9. RETIREMENT PLAN

The Health Center has a 403(b) pension plan covering all eligible employees, as defined in the plan document. The Health Center has the option to match a percentage of the employee's contribution. At the Health Center's discretion, contributions may be made to employees' accounts based on the following years of service:

1 to 4 years	3% of regular salary
5 to 14 years	5% of regular salary
15 to 19 years	7% of regular salary
20 plus years	10% of regular salary

During fiscal years 2019 and 2018, the Health Center made contributions of \$1,012,858 and \$899,389, respectively, which are included in payroll taxes and fringe benefits in the accompanying consolidated statements of functional expenses.

10. CONTINGENCIES

The Agency, from time-to-time, is the defendant in lawsuits. It is management's experience and the opinion of legal counsel that the Agency will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying consolidated financial statements for any potential liability resulting from these lawsuits. The Agency maintains Board of Directors' liability insurance as well as medical malpractice insurance (see Note 11).

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

11. MEDICAL MALPRACTICE INSURANCE

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions.

The Health Center is insured for professional liability coverage through the Federal Bureau of Primary Health Care, known as the Federal Tort Claims Act (FTCA), in accordance with the Public Health Services Act. This coverage is provided to the Health Center through its Section 330 Community Health Center grant administered by HRSA. The coverage afforded the Health Center is comparable to an occurrence-based policy without a monetary cap. The coverage is applicable to the Health Center, its officers, Board members, employees, and contractors who are physicians or other licensed or certified health care practitioners. The Health Center also has additional malpractice gap insurance.

12. RELATED PARTY TRANSACTIONS

The Health Center's Chief Executive Officer (CEO) is on the Board of Neighborhood Health Plan of Rhode Island, Inc. (NHP-RI) which provides third-party reimbursements and incentive payments to the Health Center. During the years ended August 31, 2019 and 2018, the Health Center received approximately \$7,700,000 and \$7,200,000, respectively, from this organization, which are included in net patient service revenue in the accompanying consolidated statements of activities.

A member of the Board of Directors of the Health Center is an employee at an entity who processes pharmacy transactions and rents space from the Health Center. The total value of pharmacy revenue and rental income was approximately \$8,400,000 and \$7,500,000 for the years ended August 31, 2019 and 2018, respectively.

13. ACCOUNTABLE CARE ORGANIZATION

The Health Center is a member of Integrated Health Care Partners (IHCP ACO), an Accountable Care Organization (ACO). IHCP ACO is a health care corporation organized to improve patient health and reduce the overall total cost of care for publicly and privately funded populations. Members of the Health Center's operational and finance teams provide services for IHCP ACO. IHCP ACO reimburses the Health Center for salaries of program and administrative staff members. The Health Center was reimbursed \$349,997 and \$91,920 for these services for the years ended August 31, 2019 and 2018, respectively, which are included in grants and contracts revenue in the accompanying consolidated statements of activities. Additionally, the Health Center received \$120,652 in program distributions from IHCP ACO during fiscal year 2019, which is included in net patient service revenue in the accompanying consolidated statements of activities. No such distributions were received in fiscal year 2018.

14. CONDITIONAL GRANTS

As of August 31, 2019, the Health Center has been awarded two conditional grants from a private foundation totaling \$1,200,000, of which \$400,000 was recognized during fiscal year 2019. The remaining balance of the grant is conditional, as future payments are subject to the funder's assessment of the Health Center's programs and the Health Center achieving specific benchmarks as defined in the grant agreement. Accordingly, this conditional grant will be recorded as revenue when the funder's conditions are met. The remaining balance of this grant is expected to be received, if conditions are met, during fiscal years 2020 and 2021.

THUNDERMIST HEALTH CENTER AND AFFILIATES

Notes to Consolidated Financial Statements
August 31, 2019 and 2018

15. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The financial assets available for use by the Agency within one year from the consolidated statement of financial position date as of August 31, 2019, are as follows:

Cash and cash equivalents	\$ 6,822,844
Accounts receivable - patient services, net	3,944,074
Accounts receivable - grants, contracts and other	<u>823,197</u>
Total financial assets	11,590,115
Less - financial assets with donor restrictions	<u>588,570</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,001,545</u>

The Agency's financial assets are available for use to cover its obligations as they become due. As of August 31, 2019, the Agency has financial assets equal to approximately two months of operating expenses. Additionally, in the event of an unanticipated liquidity need, management has available a \$500,000 revolving line of credit as discussed in Note 7.

16. RECLASSIFICATIONS

Certain amounts in the August 31, 2018 consolidated financial statements have been reclassified to conform with the August 31, 2019 presentation.

17. SUBSEQUENT EVENTS

Subsequent to August 31, 2019, the Health Center entered into two agreements to purchase land and buildings for a total purchase price of \$900,000. The agreements are subject to certain adjustments and post-closing payments. The Health Center also received a material advance payment on fiscal year 2019 Medicaid claims (see page 14).

THUNDERMIST HEALTH CENTER AND AFFILIATES

Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services:				
Direct Programs:				
Health Center Program Cluster:				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	\$ 1,836,303	\$ -
Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>3,827,958</u>	<u>-</u>
Total Health Center Program Cluster			5,664,261	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>325,488</u>	<u>-</u>
Total Direct Programs			<u>5,989,749</u>	<u>-</u>
Pass-through State of Rhode Island, Department of Health:				
Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke	93.426	NU58DP005511 NU58DP004837	525,599	56,316
Family Planning Services	93.217	6FPPHA006265-01-02	118,315	-
Organized Approaches to Increase Colorectal Cancer Screening	93.800	NU58DP006096	51,638	-
Maternal and Child Health Services Block Grant to the States	93.994	** B04MC30640	106,557	13,259
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	NU58DP006096	53,447	-
Assistance Programs for Chronic Disease Prevention and Control	93.945	NU58DP004837	45,144	-
Injury Prevention and Control Research and State and Community Based Programs	93.136	NUF2CE002467	17,623	-
Money Follows the Person Rebalancing Demonstration	93.791	1LICMS330828-01-08	12,937	-
HIV Care Formula Grants	93.917	17-HIV-COEXIST-02	9,505	-
Activities to Support State Tribal, local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	93.391	FY2019	150,000	
Opioid STR	93.788	TI080232	<u>136,872</u>	<u>-</u>
Total Pass-Through State of Rhode Island, Department of Health			<u>1,227,637</u>	<u>69,575</u>

THUNDERMIST HEALTH CENTER AND AFFILIATES

Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services: (Continued)				
Pass-through the Care Transformation Collaborative of Rhode Island:				
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	1G1CMS331405	403,356	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	H79SM06426	100,671	-
Pass-through South County Hospital:				
Maternal and Child Health Services Block Grant to the States	93.994	** 823	4,202	-
Total U.S. Department of Health and Human Services			7,725,615	69,575
U.S. Department of Justice:				
Pass-through State of Rhode Island, Department of Health:				
Crime Victim Assistance	16.575	2016-VA-GX-0073	217,103	-
U.S. Department of Agriculture:				
Pass-through State of Rhode Island, Department of Health:				
WIC Special Supplemental Nutrition Program for Women, Infants, and Children - Food Vouchers	10.557	4RI700706	1,318,502	-
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	4RI700706	382,795	-
Total WIC Special Supplemental Nutrition Program for Women, Infants, and Children			1,701,297	-
Total Expenditures of Federal Awards			\$ 9,644,015	\$ 69,575

** Total 93.994 \$110,759

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of the Agency and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note 2. Indirect Cost Rate

The Agency has elected not to use the 10% de minimis cost rate for its Federal programs.

Note 3. * This represents the WIC food voucher amount. For purposes of the accompanying consolidated financial statements, the related revenue and expense amounts have been shown net.



**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**

Independent Auditor's Report

To the Board of Directors of
Thundermist Health Center and Affiliates:

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 and Affiliates (collectively, the Agency), which comprise the consolidated statement of financial position as of August 31, 2019, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Agency'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* 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 the Agency'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 consolidated 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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AAFCPA, Inc.

Westborough, Massachusetts
February 20, 2020



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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors of
Thundermist Health Center and Affiliates:

Report on Compliance for Each Major Federal Program

We have audited Thundermist Health Center and Affiliates' (collectively, the Agency) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major Federal programs for the year ended August 31, 2019. The Agency's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency'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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Agency'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 the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency 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, 2019.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the Agency'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 the Uniform Guidance, 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 the Agency'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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

AAFCPAs, Inc.

Westborough, Massachusetts
February 20, 2020

THUNDERMIST HEALTH CENTER AND AFFILIATES

Schedule of Findings and Questioned Costs
August 31, 2019

1. SUMMARY OF AUDITOR’S RESULTS

Consolidated Financial Statements

Type of auditor’s report issued on whether the consolidated financial statements audited were prepared in accordance with GAAP: Unmodified

Is a “going concern” emphasis-of-matter paragraph included in the auditor’s report? Yes No

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to consolidated financial statements noted? Yes No

Federal Awards

Internal control over the major Federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor’s report issued on compliance for the major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of the major Federal programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Health Center Program Cluster	93.224 93.527
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

Auditee qualified as low-risk auditee? Yes No

THUNDERMIST HEALTH CENTER AND AFFILIATES

Schedule of Findings and Questioned Costs
August 31, 2019

2. CONSOLIDATED FINANCIAL STATEMENT FINDINGS

None

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None