



**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**

**COMBINING FINANCIAL STATEMENTS IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS AND  
UNIFORM GUIDANCE  
JUNE 30, 2019 AND 2018**

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

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June 30, 2019 and 2018

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

Independent Auditor's Report

To the Boards of Directors of  
Harbor Health Services, Inc. and Affiliate:

**Report on the Combining Financial Statements**

We have audited the accompanying combining financial statements of Harbor Health Services, Inc. and Affiliate (Massachusetts corporations, not for profit) (collectively, the Agency) which comprise the combining statements of financial position as of June 30, 2019 and 2018, and the related combining statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combining financial statements.

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

Management is responsible for the preparation and fair presentation of these combining 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 the combining 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 combining 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 combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining 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 combining 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 combining 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 combining financial statements referred to on page one present fairly, in all material respects, the combining financial position of Harbor Health Services, Inc. and Affiliate as of June 30, 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 combining financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 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 are not a required part of the combining 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 combining financial statements. The information has been subjected to the auditing procedures applied in the audit of the combining financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combining financial statements or to the combining 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 combining 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 November 6, 2019, 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.



Westborough, Massachusetts  
November 6, 2019

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**

Combining Statement of Financial Position

June 30, 2019

(With Summarized Comparative Totals as of June 30, 2018)

Assets	2019			2018	
	Harbor Health Services, Inc.	Neponset Community Services, Inc.	Eliminations	Total	Total
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 15,051,276	\$ 312,476	\$ -	\$ 15,363,752	\$ 19,097,175
Patient accounts receivable, net of allowances and reserves of approximately \$3,292,000 and \$3,426,000 as of June 30, 2019 and 2018, respectively	6,855,053	-	-	6,855,053	5,402,918
Grants, contracts and other receivables	1,602,819	-	-	1,602,819	697,715
Pharmacy inventory	348,458	-	-	348,458	315,280
Prepaid expenses	1,313,716	-	-	1,313,716	824,107
Total current assets	<u>25,171,322</u>	<u>312,476</u>	<u>-</u>	<u>25,483,798</u>	<u>26,337,195</u>
Deferred Rent Receivable	-	1,041,229	(1,041,229)	-	-
Notes Receivable	<u>8,370,540</u>	<u>-</u>	<u>-</u>	<u>8,370,540</u>	<u>8,370,540</u>
<b>Property, Plant and Equipment:</b>					
Land and improvements	3,211,502	534,687	-	3,746,189	3,746,189
Buildings and improvements	23,365,142	11,383,257	(500,000)	34,248,399	34,228,748
Leasehold improvements	2,309,203	-	-	2,309,203	2,243,771
Computer and office equipment	5,674,149	-	-	5,674,149	5,342,589
Medical and clinical equipment	2,072,621	-	-	2,072,621	1,878,179
	<u>36,632,617</u>	<u>11,917,944</u>	<u>(500,000)</u>	<u>48,050,561</u>	<u>47,439,476</u>
Less - accumulated depreciation	15,545,537	683,869	-	16,229,406	14,375,676
Net property, plant and equipment	<u>21,087,080</u>	<u>11,234,075</u>	<u>(500,000)</u>	<u>31,821,155</u>	<u>33,063,800</u>
Total assets	<u>\$ 54,628,942</u>	<u>\$ 12,587,780</u>	<u>\$ (1,541,229)</u>	<u>\$ 65,675,493</u>	<u>\$ 67,771,535</u>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities:</b>					
Current portion of long-term debt	\$ 379,795	\$ -	\$ -	\$ 379,795	\$ 210,344
Accounts payable	975,538	-	-	975,538	1,319,252
Accrued expenses	6,804,677	14,162	-	6,818,839	6,236,536
Refundable advances	781,062	-	-	781,062	1,982,699
Total current liabilities	<u>8,941,072</u>	<u>14,162</u>	<u>-</u>	<u>8,955,234</u>	<u>9,748,831</u>
<b>Long-Term Liabilities:</b>					
Deferred rent payable	1,041,229	-	(1,041,229)	-	-
Interest rate swap contract in gain position	(42,829)	-	-	(42,829)	(363,819)
Long-term debt, net of current portion and debt issuance costs	14,706,920	11,696,040	-	26,402,960	26,667,914
Total long-term liabilities	<u>15,705,320</u>	<u>11,696,040</u>	<u>(1,041,229)</u>	<u>26,360,131</u>	<u>26,304,095</u>
<b>Net Assets:</b>					
<b>Without donor restrictions:</b>					
Operating	13,905,872	1,339,543	(500,000)	14,745,415	14,245,345
Property, plant and equipment	14,413,734	(461,965)	-	13,951,769	15,419,901
Board designated	1,522,888	-	-	1,522,888	1,522,656
Total without donor restrictions	<u>29,842,494</u>	<u>877,578</u>	<u>(500,000)</u>	<u>30,220,072</u>	<u>31,187,902</u>
With donor restrictions	140,056	-	-	140,056	530,707
Total net assets	<u>29,982,550</u>	<u>877,578</u>	<u>(500,000)</u>	<u>30,360,128</u>	<u>31,718,609</u>
Total liabilities and net assets	<u>\$ 54,628,942</u>	<u>\$ 12,587,780</u>	<u>\$ (1,541,229)</u>	<u>\$ 65,675,493</u>	<u>\$ 67,771,535</u>

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**

 Combining Statement of Financial Position  
 June 30, 2018

<b>Assets</b>	<b>Harbor Health Services, Inc.</b>	<b>Neponset Community Services, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Current Assets:				
Cash and cash equivalents	\$ 18,721,062	\$ 376,113	\$ -	\$ 19,097,175
Patient accounts receivable, net of allowances and reserves of approximately \$3,426,000	5,402,918	-	-	5,402,918
Grants, contracts and other receivables	697,715	-	-	697,715
Pharmacy inventory	315,280	-	-	315,280
Prepaid expenses	820,941	3,166	-	824,107
Total current assets	25,957,916	379,279	-	26,337,195
Deferred Rent Receivable	-	694,153	(694,153)	-
Notes Receivable	8,370,540	-	-	8,370,540
Property, Plant and Equipment:				
Land and improvements	3,211,502	534,687	-	3,746,189
Buildings and improvements	23,345,491	11,383,257	(500,000)	34,228,748
Leasehold improvements	2,243,771	-	-	2,243,771
Computer and office equipment	5,342,589	-	-	5,342,589
Medical and clinical equipment	1,878,179	-	-	1,878,179
	36,021,532	11,917,944	(500,000)	47,439,476
Less - accumulated depreciation	13,973,988	401,688	-	14,375,676
Net property, plant and equipment	22,047,544	11,516,256	(500,000)	33,063,800
Total assets	\$ 56,376,000	\$ 12,589,688	\$ (1,194,153)	\$ 67,771,535
<b>Liabilities and Net Assets</b>				
Current Liabilities:				
Current portion of long-term debt	\$ 210,344	\$ -	\$ -	\$ 210,344
Accounts payable	1,319,252	-	-	1,319,252
Accrued expenses	6,218,974	17,562	-	6,236,536
Refundable advances	1,982,699	-	-	1,982,699
Total current liabilities	9,731,269	17,562	-	9,748,831
Long-Term Liabilities:				
Deferred rent payable	694,153	-	(694,153)	-
Interest rate swap contract in gain position	(363,819)	-	-	(363,819)
Long-term debt, net of current portion and debt issuance costs	15,052,299	11,615,615	-	26,667,914
Total long-term liabilities	15,382,633	11,615,615	(694,153)	26,304,095
Net Assets:				
Without donor restrictions:				
Operating	13,689,475	1,055,870	(500,000)	14,245,345
Property, plant and equipment	15,519,260	(99,359)	-	15,419,901
Board designated	1,522,656	-	-	1,522,656
Total without donor restrictions	30,731,391	956,511	(500,000)	31,187,902
With donor restrictions	530,707	-	-	530,707
Total net assets	31,262,098	956,511	(500,000)	31,718,609
Total liabilities and net assets	\$ 56,376,000	\$ 12,589,688	\$ (1,194,153)	\$ 67,771,535

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**

Combining Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2019

(With Summarized Comparative Totals for the Year Ended June 30, 2018)

	<b>2019</b>			<b>2018</b>	
	<b>Harbor Health Services, Inc.</b>	<b>Neponset Community Services, Inc.</b>	<b>Eliminations</b>	<b>Total</b>	<b>Total</b>
<b>Changes in Net Assets Without Donor Restrictions:</b>					
Operating revenues and public support:					
Net patient service revenue	\$ 63,233,104	\$ -	\$ -	\$ 63,233,104	\$ 56,708,860
Grants and contracts	8,406,522	-	-	8,406,522	9,582,376
Pharmacy revenue:					
Gross pharmacy sales - \$6,658,414					
Less - cost of sales - <u>\$2,771,102</u>					
Net pharmacy revenue	3,887,312	-	-	3,887,312	3,310,722
Rental income	-	572,274	(572,274)	-	-
Interest income and other	395,552	12,078	(104,000)	303,630	316,511
Contributions and fundraising	12,148	-	-	12,148	16,240
Net assets released from restrictions - operating	2,747,780	-	-	2,747,780	1,316,563
Total operating revenues and public support	<u>78,682,418</u>	<u>584,352</u>	<u>(676,274)</u>	<u>78,590,496</u>	<u>71,251,272</u>
Operating expenses:					
Program	68,413,036	663,285	(676,274)	68,400,047	61,829,790
General and administration	10,837,289	-	-	10,837,289	9,608,934
Total operating expenses	<u>79,250,325</u>	<u>663,285</u>	<u>(676,274)</u>	<u>79,237,336</u>	<u>71,438,724</u>
Changes in net assets without donor restrictions from operations	<u>(567,907)</u>	<u>(78,933)</u>	<u>-</u>	<u>(646,840)</u>	<u>(187,452)</u>
Non-operating revenues (expenses):					
Unrealized gain (loss) on carrying value of interest rate swap contract	(320,990)	-	-	(320,990)	181,371
Interest expense	-	-	-	-	(39,374)
Total non-operating revenues (expenses)	<u>(320,990)</u>	<u>-</u>	<u>-</u>	<u>(320,990)</u>	<u>141,997</u>
Changes in net assets without donor restrictions	<u>(888,897)</u>	<u>(78,933)</u>	<u>-</u>	<u>(967,830)</u>	<u>(45,455)</u>
<b>Changes in Net Assets With Donor Restrictions:</b>					
Grants and contracts	2,357,129	-	-	2,357,129	1,712,354
Net assets released from donor restrictions - operating	<u>(2,747,780)</u>	<u>-</u>	<u>-</u>	<u>(2,747,780)</u>	<u>(1,316,563)</u>
Changes in net assets with donor restrictions	<u>(390,651)</u>	<u>-</u>	<u>-</u>	<u>(390,651)</u>	<u>395,791</u>
Total changes in net assets	<u>(1,279,548)</u>	<u>(78,933)</u>	<u>-</u>	<u>(1,358,481)</u>	<u>350,336</u>
<b>Net Assets:</b>					
Beginning of year	<u>31,262,098</u>	<u>956,511</u>	<u>(500,000)</u>	<u>31,718,609</u>	<u>31,368,273</u>
End of year	<u>\$ 29,982,550</u>	<u>\$ 877,578</u>	<u>\$ (500,000)</u>	<u>\$ 30,360,128</u>	<u>\$ 31,718,609</u>

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

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**

 Combining Statement of Activities and Changes in Net Assets  
 For the Year Ended June 30, 2018

	Harbor Health Services, Inc.	Neponset Community Services, Inc.	Eliminations	Total
<b>Changes in Net Assets Without Donor Restrictions:</b>				
Operating revenues and public support:				
Net patient service revenue	\$ 56,708,860	\$ -	\$ -	\$ 56,708,860
Grants and contracts	9,582,376	-	-	9,582,376
Pharmacy revenue:				
Gross pharmacy sales - \$5,609,834				
Less - cost of sales - <u>\$2,299,112</u>				
Net pharmacy revenue	3,310,722	-	-	3,310,722
Rental income	-	483,717	(483,717)	-
Interest income and other	363,054	7,457	(54,000)	316,511
Contributions and fundraising	16,240	-	-	16,240
Net assets released from restrictions - operating	1,316,563	-	-	1,316,563
Total operating revenues and public support	<u>71,297,815</u>	<u>491,174</u>	<u>(537,717)</u>	<u>71,251,272</u>
Operating expenses:				
Program	61,897,500	470,007	(537,717)	61,829,790
General and administration	9,608,934	-	-	9,608,934
Total operating expenses	<u>71,506,434</u>	<u>470,007</u>	<u>(537,717)</u>	<u>71,438,724</u>
Changes in net assets without donor restrictions from operations	<u>(208,619)</u>	<u>21,167</u>	<u>-</u>	<u>(187,452)</u>
Non-operating revenues (expenses):				
Development fee	41,200	-	(41,200)	-
Unrealized gain on carrying value of interest rate swap contract	181,371	-	-	181,371
Rent	(87,679)	87,679	-	-
Interest expense	(28,388)	(10,986)	-	(39,374)
Total non-operating revenues (expenses)	<u>106,504</u>	<u>76,693</u>	<u>(41,200)</u>	<u>141,997</u>
Changes in net assets without donor restrictions	<u>(102,115)</u>	<u>97,860</u>	<u>(41,200)</u>	<u>(45,455)</u>
<b>Changes in Net Assets With Donor Restrictions:</b>				
Grants and contracts	1,712,354	-	-	1,712,354
Net assets released from donor restrictions - operating	(1,316,563)	-	-	(1,316,563)
Changes in net assets with donor restrictions	<u>395,791</u>	<u>-</u>	<u>-</u>	<u>395,791</u>
Total changes in net assets	<u>293,676</u>	<u>97,860</u>	<u>(41,200)</u>	<u>350,336</u>
<b>Net Assets:</b>				
Beginning of year	31,023,366	803,707	(458,800)	31,368,273
Net asset transfer	<u>(54,944)</u>	<u>54,944</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 31,262,098</u>	<u>\$ 956,511</u>	<u>\$ (500,000)</u>	<u>\$ 31,718,609</u>

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



**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**

Combining Statements of Cash Flows  
For the Years Ended June 30, 2019 and 2018

	2019			2018			
	Harbor Health Services, Inc.	Neponset Community Services, Inc.	Total	Harbor Health Services, Inc.	Neponset Community Services, Inc.	Eliminations	Total
<b>Cash Flows from Operating Activities:</b>							
Changes in net assets	\$ (1,279,548)	\$ (78,933)	\$ (1,358,481)	\$ 293,676	\$ 97,860	\$ (41,200)	\$ 350,336
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:							
Depreciation	1,571,549	282,181	1,853,730	1,575,663	144,655	-	1,720,318
Amortization of debt issuance costs charged as interest expense	34,903	80,425	115,328	22,928	80,426	-	103,354
Unrealized (gain) loss on carrying value of interest rate swap contract	320,990	-	320,990	(181,371)	-	-	(181,371)
Bad debts	1,041,384	-	1,041,384	721,374	-	-	721,374
Changes in operating assets and liabilities:							
Patient accounts receivable	(2,493,519)	-	(2,493,519)	(1,432,314)	-	-	(1,432,314)
Grants, contracts and other receivables	(905,104)	-	(905,104)	(235,065)	42,984	-	(192,081)
Pharmacy inventory	(33,178)	-	(33,178)	(83,718)	-	-	(83,718)
Prepaid expenses	(492,775)	3,166	(489,609)	(99,449)	(840)	-	(100,289)
Deferred rent (receivable) payable	347,076	(347,076)	-	347,076	(347,076)	-	-
Accounts payable	(343,714)	-	(343,714)	(236,848)	673,002	-	436,154
Accrued expenses	585,703	(3,400)	582,303	(161,962)	(670,523)	-	(832,485)
Refundable advances	(1,201,637)	-	(1,201,637)	188,768	-	-	188,768
Net cash provided by (used in) operating activities	(2,847,870)	(63,637)	(2,911,507)	718,758	20,488	(41,200)	698,046
<b>Cash Flows from Investing Activities:</b>							
Acquisition of property, plant and equipment	(611,085)	-	(611,085)	(633,343)	(949,987)	41,200	(1,542,130)
Withdrawals from restricted cash	-	-	-	-	925,924	-	925,924
Net asset transfer	-	-	-	(54,944)	54,944	-	-
Net cash provided by (used in) investing activities	(611,085)	-	(611,085)	(688,287)	30,881	41,200	(616,206)
<b>Cash Flows from Financing Activities:</b>							
Principal payments on long-term debt	(210,831)	-	(210,831)	(205,164)	-	-	(205,164)
<b>Net Change in Cash and Cash Equivalents</b>	(3,669,786)	(63,637)	(3,733,423)	(174,693)	51,369	-	(123,324)
<b>Cash and Cash Equivalents:</b>							
Beginning of year	18,721,062	376,113	19,097,175	18,895,755	324,744	-	19,220,499
End of year	\$ 15,051,276	\$ 312,476	\$ 15,363,752	\$ 18,721,062	\$ 376,113	\$ -	\$ 19,097,175
<b>Supplemental Disclosure of Cash Flow Information:</b>							
Cash paid for interest	\$ 400,982	\$ 131,828	\$ 532,810	\$ 406,966	\$ 120,841	\$ -	\$ 527,807
Construction in process placed in service	\$ -	\$ -	\$ -	\$ 422,857	\$ 9,738,102	\$ -	\$ 10,160,959

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

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Combining Statement of Functional Expenses  
 For the Year Ended June 30, 2019  
 (With Summarized Comparative Totals for the Year Ended June 30, 2018)

	2019													2018		
	Harbor Health Services, Inc.															
	Program Services										General and Administration	Total Health Center Expenses	Neponset Community Services, Inc.	Eliminations	Total Expenses	Total Expenses
	Daniel J. Driscoll Health Center	Geiger Gibson Community Health Center	Elder Service Plan	Women, Infants and Children	Ellen Jones Community Dental Center	Harbor Community Health Center - Hyannis	Harbor Community Health Center - Plymouth	Harbor Community Dental Center - Provincetown	Shared Services*	Total Program Services						
<b>Personnel and Related Costs:</b>																
Salaries and wages	\$ 7,959,902	\$ 2,124,634	\$ 8,428,429	\$ 598,852	\$ 1,007,010	\$ 6,134,686	\$ 2,439,787	\$ 405,439	\$ 711,865	\$ 29,810,604	\$ 5,604,272	\$ 35,414,876	\$ -	\$ -	\$ 35,414,876	\$ 31,361,891
Payroll taxes and fringe benefits	1,616,692	424,397	1,688,375	184,500	200,343	1,231,971	503,514	83,255	173,436	6,106,483	1,349,819	7,456,302	-	-	7,456,302	6,671,114
Independent providers and temporary help	277,332	400	158,543	-	-	1,680	12,780	-	-	450,735	294,249	744,984	-	-	744,984	529,817
Total personnel and related costs	9,853,926	2,549,431	10,275,347	783,352	1,207,353	7,368,337	2,956,081	488,694	885,301	36,367,822	7,248,340	43,616,162	-	-	43,616,162	38,562,822
<b>Occupancy:</b>																
Maintenance and utilities	386,098	95,471	557,747	359	37,623	200,089	81,503	20,316	102	1,379,308	1,066,722	2,446,030	8,040	(4,000)	2,450,070	2,168,573
Depreciation	153,565	209,678	144,701	570	20,279	271,041	109,811	25,722	1,589	936,956	634,593	1,571,549	282,181	-	1,853,730	1,720,318
Interest	-	-	335,213	-	-	-	-	-	-	335,213	100,672	435,885	212,252	-	648,137	591,787
Rent	32,658	240,000	552,174	49,775	-	63,126	109,200	-	-	1,046,933	13,536	1,060,469	-	(572,274)	488,195	485,933
Total occupancy	572,321	545,149	1,589,835	50,704	57,902	534,256	300,514	46,038	1,691	3,698,410	1,815,523	5,513,933	502,473	(576,274)	5,440,132	4,966,611
<b>Other Costs:</b>																
Consultants and patient care:																
Elder Service Plan	-	-	22,107,484	-	-	-	-	-	-	22,107,484	-	22,107,484	-	-	22,107,484	20,753,717
Supplies	582,598	311,311	401,498	1,074	195,170	525,132	240,706	69,431	5,509	2,332,429	51,169	2,383,598	-	-	2,383,598	2,172,132
Professional fees	93,036	12,978	253,782	36	3,478	60,665	52,779	9,099	31,114	516,967	800,864	1,317,831	60,812	-	1,378,643	1,133,443
Travel and transportation	75,215	10,908	1,093,362	836	15,021	54,362	8,710	7,176	1,165	1,266,755	90,003	1,356,758	-	-	1,356,758	1,198,418
Other	145,782	46,041	195,144	7,429	15,870	117,019	45,287	10,500	612	583,684	572,614	1,156,298	100,000	(100,000)	1,156,298	1,222,230
Bad debts	328,645	167,085	13,517	-	96,384	293,825	132,298	9,630	-	1,041,384	-	1,041,384	-	-	1,041,384	721,374
Communications	171,488	52,208	102,209	13,138	28,063	90,210	33,701	4,035	3,049	498,101	77,002	575,103	-	-	575,103	535,581
Insurance	-	-	-	-	-	-	-	-	-	-	181,774	181,774	-	-	181,774	172,396
Total other costs	1,396,764	600,531	24,166,996	22,513	353,986	1,141,213	513,481	109,871	41,449	28,346,804	1,773,426	30,120,230	160,812	(100,000)	30,181,042	27,909,291
Total expenses before allocations	11,823,011	3,695,111	36,032,178	856,569	1,619,241	9,043,806	3,770,076	644,603	928,441	68,413,036	10,837,289	79,250,325	663,285	(676,274)	79,237,336	71,438,724
<b>Shared Services* Allocation</b>	421,468	139,361	-	-	39,479	220,498	91,919	15,716	(928,441)	-	-	-	-	-	-	-
<b>Community Health Center Allocation</b>	1,136,982	355,348	-	-	155,718	869,715	362,557	61,990	-	2,942,310	(2,942,310)	-	-	-	-	-
<b>Morton Street Allocation</b>	-	-	1,016,446	-	-	-	-	-	-	1,016,446	(1,016,446)	-	-	-	-	-
<b>General and Administration Allocation</b>	1,191,912	372,516	3,632,517	86,353	163,241	911,734	380,073	64,984	75,203	6,878,533	(6,878,533)	-	-	-	-	-
Total expenses	\$ 14,573,373	\$ 4,562,336	\$ 40,681,141	\$ 942,922	\$ 1,977,679	\$ 11,045,753	\$ 4,604,625	\$ 787,293	\$ 75,203	\$ 79,250,325	\$ -	\$ 79,250,325	\$ 663,285	\$ (676,274)	\$ 79,237,336	\$ 71,438,724

\*Includes Central Call Center and Central Lab

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Combining Statement of Functional Expenses  
For the Year Ended June 30, 2018

Harbor Health Services, Inc.														
Program Services														
	Daniel J. Driscoll Health Center	Geiger Gibson Community Health Center	Elder Service Plan	Women, Infants and Children	Ellen Jones Community Dental Center	Harbor Community Health Center - Hyannis	Harbor Community Health Center - Plymouth	Shared Services*	Total Program Services	General and Administration	Total Health Center Expenses	Neponset Community Services, Inc.	Eliminations	Total Expenses
<b>Personnel and Related Costs:</b>														
Salaries and wages	\$ 7,385,878	\$ 2,019,100	\$ 7,653,909	\$ 583,031	\$ 853,597	\$ 5,247,802	\$ 1,887,586	\$ 820,105	\$ 26,451,008	\$ 4,910,883	\$ 31,361,891	\$ -	\$ -	\$ 31,361,891
Payroll taxes and fringe benefits	1,571,074	426,716	1,566,875	170,222	178,801	1,069,408	389,618	184,784	5,557,498	1,113,616	6,671,114	-	-	6,671,114
Independent providers and temporary help	169,693	6,710	112,698	-	-	76,029	31,940	-	397,070	132,747	529,817	-	-	529,817
Total personnel and related costs	9,126,645	2,452,526	9,333,482	753,253	1,032,398	6,393,239	2,309,144	1,004,889	32,405,576	6,157,246	38,562,822	-	-	38,562,822
<b>Occupancy:</b>														
Maintenance and utilities	360,903	134,881	197,562	-	52,738	260,662	94,593	2,308	1,103,647	1,059,015	2,162,662	9,911	(4,000)	2,168,573
Depreciation	167,749	212,417	96,009	1,982	38,321	326,195	109,304	2,030	954,007	621,656	1,575,663	144,655	-	1,720,318
Interest	-	-	311,183	-	-	-	-	-	311,183	90,323	401,506	190,281	-	591,787
Rent	32,023	240,000	462,261	49,775	-	63,126	109,200	-	956,385	13,265	969,650	-	(483,717)	485,933
Total occupancy	560,675	587,298	1,067,015	51,757	91,059	649,983	313,097	4,338	3,325,222	1,784,259	5,109,481	344,847	(487,717)	4,966,611
<b>Other Costs:</b>														
Consultants and patient care:														
Elder Service Plan	-	-	20,753,717	-	-	-	-	-	20,753,717	-	20,753,717	-	-	20,753,717
Supplies	488,010	274,470	530,858	5,485	161,860	437,240	196,066	17,567	2,111,556	60,576	2,172,132	-	-	2,172,132
Professional fees	93,310	4,180	261,838	-	1,770	44,363	24,500	380	430,341	627,942	1,058,283	75,160	-	1,133,443
Travel and transportation	66,097	6,286	991,876	1,280	7,882	34,386	6,421	1,326	1,115,554	82,864	1,198,418	-	-	1,198,418
Other	164,497	42,796	222,853	7,543	14,474	101,071	35,650	1,017	589,901	632,329	1,222,230	50,000	(50,000)	1,222,230
Bad debts	254,734	120,786	-	-	29,166	244,035	72,653	-	721,374	-	721,374	-	-	721,374
Communications	146,096	42,851	74,762	11,978	22,983	68,529	27,236	49,824	444,259	91,322	535,581	-	-	535,581
Insurance	-	-	-	-	-	-	-	-	-	172,396	172,396	-	-	172,396
Total other costs	1,212,744	491,369	22,835,904	26,286	238,135	929,624	362,526	70,114	26,166,702	1,667,429	27,834,131	125,160	(50,000)	27,909,291
Total expenses before allocations	10,900,064	3,531,193	33,236,401	831,296	1,361,592	7,972,846	2,984,767	1,079,341	61,897,500	9,608,934	71,506,434	470,007	(537,717)	71,438,724
<b>Shared Services* Allocation</b>	576,280	200,872	-	-	33,400	195,573	73,216	(1,079,341)	-	-	-	-	-	-
<b>Community Health Center Allocation</b>	139,194	45,093	-	-	17,388	101,813	38,115	-	341,603	(341,603)	-	-	-	-
<b>Morton Street Allocation</b>	-	-	976,449	-	-	-	-	-	976,449	(976,449)	-	-	-	-
<b>General and Administration Allocation</b>	1,449,267	476,243	4,503,290	112,115	183,634	1,075,277	402,548	88,508	8,290,882	(8,290,882)	-	-	-	-
Total expenses	\$ 13,064,805	\$ 4,253,401	\$ 38,716,140	\$ 943,411	\$ 1,596,014	\$ 9,345,509	\$ 3,498,646	\$ 88,508	\$ 71,506,434	\$ -	\$ 71,506,434	\$ 470,007	\$ (537,717)	\$ 71,438,724

\*Includes Central Call Center and Central Lab

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 1. OPERATIONS AND NONPROFIT STATUS

Harbor Health Services, Inc. (HHSI) is a Massachusetts nonprofit organization which provides comprehensive outpatient health care services and community and social services to the residents of Dorchester, Quincy, Mattapan, Hyannis, Plymouth, Harwich and Provincetown, Massachusetts, and their surrounding communities. HHSI has an affiliate, Neponset Community Services, Inc. (NCS). NCS is a supporting organization of HHSI and shares two common Board members.

NCS is a nonprofit organization formed in 1989 to provide health and social services, as well as manage and operate health facilities. NCS owns two facilities which it leases to HHSI (see Note 12).

HHSI and NCS are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). HHSI and NCS are also exempt from state income taxes. Donors may deduct contributions made to HHSI and NCS within the IRC requirements.

HHSI operates several facilities, including those known as the Daniel J. Driscoll Health Center, the Geiger Gibson Community Health Center, the Harbor Community Health Center – Hyannis, the Ellen Jones Community Dental Center, the Harbor Community Health Center – Plymouth, the Harbor Community Dental Center – Provincetown, the Elder Service Plan – Mattapan, and the Elder Service Plan – Brockton.

### 2. SIGNIFICANT ACCOUNTING POLICIES

HHSI and NCS's combining financial statements have been prepared in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standard Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

#### Adoption of New Accounting Standard

During fiscal year 2019, HHSI and NCS 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 HHSI and NCS's combining financial statements:

- Net assets are to be segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets (see page 13).
- 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 combining statement of financial position date (see Note 17).
- A more detailed explanation of the methods used to allocate costs among program and supporting functions has been included in the notes to the combining financial statements (see page 14).

The adoption of this ASU did not impact HHSI and NCS's net asset balances, change in net assets, or cash flows for the year ended June 30, 2018. 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 combining financial statements, which HHSI and NCS elected to omit.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Combination

The combining financial statements include the net assets of HHSI and NCS (collectively, the Agency). All significant balances between classes of net assets and intercompany balances and transactions have been eliminated in the accompanying combining financial statements.

#### Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the fiscal year ending June 30, 2020.

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. Distinguishing between contributions and exchange transactions determines which revenue or expense recognition guidance is to be applied. Exchange transactions entered into by entities will be accounted within the scope of ASC 606, *Revenue from Contracts with Customers*, or other applicable guidance, while the guidance related to accounting for contributions received is included in Subtopic 958-605, *Not-For-Profit Entities – Revenue Recognition*. This standard will be effective for the fiscal year ending June 30, 2020, for resource recipients (contributions received) and will be effective for the fiscal year ending June 30, 2021, for resource providers (contributions made).

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Agency's fiscal year ending June 30, 2022.

The Agency is currently in the process of evaluating the impact of adoption of these ASUs on the combining financial statements.

#### Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

#### Combining Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenues and public support and operating expenses in the accompanying combining statements of activities and changes in net assets. Non-operating revenues and expenses include items related to property, plant and equipment activity, unrealized gain (loss) on carrying value of interest rate swap contract, interest income and expense, and development fees.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

Contracts are recorded over the contract period as services are provided. Grants and contributions without donor restrictions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as revenues and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions or program restrictions have lapsed and are shown as net assets released from donor restrictions in the accompanying combining statements of activities and changes in net assets. Rent revenue is recognized over the lease term. Interest income and other revenue is recorded when earned. For the year ended June 30, 2019, interest income for HHSI and NCS was \$225,514 and \$12,078, respectively, and was \$228,757 and \$7,457, respectively, and is included in interest income and other on the accompanying statements of activities and changes in net assets.

Patient service revenue is recorded as services are provided. HHSI establishes fees for services to patients based upon the patients' ability to pay for these services. Net patient service revenue reflects the amounts to be collected after provisions for contractual allowances and free care. Contractual allowances are recorded in the period the related services are rendered. Net patient service revenue is adjusted as required based on agreed upon rates and final settlements. In general, HHSI is reimbursed from third-party payors based on negotiated rates, procedural fee schedules and discounted charges. Contractual allowances were approximately \$13,786,000 and \$12,020,000 (excludes Health Safety Net (HSN) and Self-Pay) for the years ended June 30, 2019 and 2018, respectively.

#### *Measuring Charity Care*

The Agency has a policy of providing free care services to patients who are unable to pay or to those who may be underinsured. Such patients are identified based upon financial information obtained from the patient prior to services being rendered. Since the Agency does not expect payment, estimated charges for free care are not included in the net patient service revenue. The Agency provided approximately \$5,702,000 and \$4,876,000 of free care services during the years ended June 30, 2019 and 2018, respectively. The opportunity cost of providing the services was approximately \$5,745,000 and \$4,853,000 for the years ended June 30, 2019 and 2018, respectively. The cost of providing free care was calculated by multiplying the percentage of gross free care charges to total gross patient charges by the total cost of providing patient services. Massachusetts law provides coverage for healthcare services via HSN. The Agency received partial reimbursement from the Commonwealth of Massachusetts for free care services of approximately \$3,289,000 and \$2,771,000 for the years ended June 30, 2019 and 2018, respectively.

The Commonwealth of Massachusetts provides vouchers to participants of HHSI's Women, Infants and Children program. The value of these vouchers for fiscal years 2019 and 2018 was approximately \$1,738,000 and \$1,702,000, respectively. These amounts are not reflected in the accompanying combining financial statements.

#### Allowance for Uncollectible Accounts

The Agency records patient accounts receivable net of allowances for uncollectible accounts and contractual allowances. These allowances are recorded based upon reimbursement rates from third-party payors and historical collections on third-party receivables, as well as other factors. The Agency writes off uncollectible patient accounts receivable balances upon determining they will not be collected. The Agency writes off uncollectible grants, contracts and other receivables upon determining they will not be collected. There was no allowance for uncollectible accounts for grants, contracts and other receivables as management has deemed all to be collectible.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property, Plant and Equipment and Depreciation

Purchased property, plant and equipment are recorded at cost. Donated property, plant and equipment are recorded at fair market value at the time of donation. Renewals and betterments 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:

Buildings and improvements	10 - 40 years
Leasehold improvements	10 - 40 years
Computer and office equipment	3 - 16 years
Medical and clinical equipment	3 - 10 years

Land and improvements are not depreciated.

The Agency accounts for the carrying value of its property, plant and equipment in accordance with the requirements of ASC Topic, *Impairment and Disposal of Long-Lived Assets*. As of June 30, 2019 and 2018, the Agency has not recognized any reduction in the carrying value of its property, plant and equipment in consideration of the requirement.

#### Pharmacy Inventory

Pharmacy inventory consists of pharmaceuticals on hand and is recorded at the lower of cost (as determined by the first-in, first out (FIFO) method) or market.

#### Estimates

The preparation of combining 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 combining financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Refundable Advances

Refundable advances consist of deferred revenue, payments from governmental agencies, and other contracted agencies that may be in excess of the amounts owed for the services provided.

#### 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 combining 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 combining financial statements at June 30, 2019 and 2018. The Agency's information and tax returns are subject to examination by Federal and state jurisdictions.

#### Cash and Cash Equivalents

For the purpose of the combining statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Subsequent Events

Subsequent events have been evaluated through November 6, 2019, which is the date the combining financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combining financial statements.

#### Donated Goods and Services

During fiscal years 2019 and 2018, the Agency received donated professional services and rent. These amounts are included in contributions and fundraising revenue and supplies expense in the accompanying combining statements of activities and changes in net assets based upon the value assigned to them by the donating individuals and management. Donated goods and services totaled \$11,157 and \$12,240 for the years ended June 30, 2019 and 2018, respectively.

#### Net Assets

Net assets consist of the following:

##### *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 restrictions into the following categories:

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

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

**Board designated net assets** represent funds set aside by the Board of Directors and consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Designated for property, plant and equipment and operations	\$ 1,500,000	\$ 1,500,000
Driscoll scholarship fund - designated for scholarship awards	<u>22,888</u>	<u>22,656</u>
	<u>\$ 1,522,888</u>	<u>\$ 1,522,656</u>

The above amounts may only be used with the approval of the Board of Directors of HHSI.

##### *Net Assets With Donor Restrictions*

The Agency receives contributions and grants that are designated by donors for specific purposes and time periods. These contributions and grants are recorded as net assets with donor restrictions until they are expended for their designated purposes. Net assets with donor restrictions are purpose restricted as of June 30, 2019 and 2018.

#### Expense Classifications

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.



## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Expense Classifications (Continued)

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and wages and payroll taxes and fringe benefits, which are allocated on the basis of estimates of time and effort; occupancy costs, which are allocated on a square footage basis; and certain support services, which are allocated based on visits performed by location. Certain direct pharmacy expenses are netted with pharmacy revenue in the combining statements of activities and changes in net assets. Total expenses for the years ended June 30, 2019 and 2018, are \$82,008,438 and \$73,737,836, including pharmacy cost of sales of \$2,771,102 and \$2,299,112, respectively, which are shown net with gross pharmacy sales on the accompanying combining statements of activities.

#### Fair Value Measurements

The Agency follows the accounting 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. 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 or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2: Inputs other than quoted prices in active markets 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.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

**Interest Rate Swap Contract:** The fair value of the interest rate swap contract is the estimated amount that the Agency would have to pay to receive or terminate the contract as of the combining statement of financial position date, taking into account current interest rates and the current credit worthiness of the swap counterparty. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy (see Note 10).

**All Other Assets and Liabilities:** The carrying value of all other assets and liabilities including long-term debt does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 3. FUNDING

#### Grants and Contracts

The Agency receives funding from several agencies to assist in its programs and operating costs. The Agency charges patients and third parties for services provided.

The Agency received approximately 9% of its total operating revenues and public support during fiscal years 2019 and 2018 from the U.S. Department of Health and Human Services - Health Resources and Services Administration (HRSA).

The Agency also receives funding from various other governmental agencies to assist with program expenses and operating costs. These grants and contracts have been expended in accordance with the respective terms contained in the agreements and are subject to possible final audit determination by certain governmental agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the combining financial position of the Agency as of June 30, 2019 and 2018, or on the combining statements of activities and changes in net assets for the years then ended.

#### Patient Service Revenue

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, such determinations, if any, will not have a material effect on the combining financial position of the Agency as of June 30, 2019 and 2018, or on the combining statements of activities and changes in net assets for the years then ended.

### 4. COMMITMENTS

HHSI leases facilities as a tenant-at-will and under operating leases that expire at various dates through October 2029. The aggregate monthly payments under these lease agreements were \$30,400 for the years ended June 30, 2019 and 2018. HHSI is responsible for its proportionate share of real estate taxes and operating expenses as defined in these lease agreements. The leases also require HHSI to maintain certain insurance coverage. HHSI has options to extend the leases for an additional three-year and five-year term under the same terms, as defined in the agreements.

Remaining minimum facilities lease payments under these agreements are as follows:

2020	\$ 436,467
2021	\$ 450,800
2022	\$ 270,800
2023	\$ 210,800
2024	\$ 148,400

HHSI entered into an operating lease agreement for equipment through May 2020, with aggregate monthly payments of \$2,574 for the years ended June 30, 2019 and 2018.

HHSI leases two facilities from NCS which are not included in the above table (see Note 12).

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 5. RETIREMENT PLANS

The Agency maintains a defined contribution retirement plan (403(b) Plan) for employees who have completed at least one year of employment and have at least 1,000 hours of service. The 403(b) Plan allows participants to make voluntary contributions. The Agency makes annual contributions up to 7.5% of participating employees' salaries. The Agency's contributions are vested immediately in the participants' accounts. The Agency's contributions were \$799,026 and \$778,310 in fiscal years 2019 and 2018, respectively, and are included in payroll taxes and fringe benefits in the accompanying combining financial statements.

The Agency established a non-ERISA health insurance plan for post-retirement benefits. The Agency has accrued approximately \$232,000 as of June 30, 2019 and 2018, for these benefits, which is included in accrued expenses in the accompanying combining statements of financial position.

### 6. PROGRAM OF ALL-INCLUSIVE CARE FOR THE ELDERLY (PACE)

The PACE program provides managed care concepts to an acute and long-term care service delivery system for fragile elders who are certified by the Commonwealth of Massachusetts and Centers for Medicaid and Medicare Services (CMS) as having met nursing home admission criteria. HHSI is recognized by the National PACE Association as an approved PACE provider.

HHSI is reimbursed for services based on a per capita monthly rate. The Agency recognized revenue of approximately \$41,760,000 and \$38,300,000 for the years ended June 30, 2019 and 2018, respectively. These amounts are included in net patient service revenue in the accompanying combining statements of activities and changes in net assets. See Note 13 for concentrations.

HHSI is contracted to provide or arrange for covered services for enrollees. Covered services include acute hospital care, clinical laboratory services, home health care, adult day care, and any other medical Medicaid and Medicare reimbursable services. HHSI is responsible for the long-term care of the participants in this program. In certain cases, the cost to care for these participants could exceed the per capita amount received. HHSI's reimbursement is settled by Medicare annually based upon certain criteria. Medicare determined a settlement of approximately \$2,351,000 and \$1,970,000 was owed to HHSI for the years ended June 30, 2019 and 2018, respectively, for calendar year 2018 and 2017 services and mid-calendar year 2019 services, which is included in patient accounts receivable in the accompanying combining statements of financial position.

### 7. NEW MARKETS TAX CREDIT TRANSACTION

During fiscal year 2018, NCS completed the expansion of HHSI's medical, behavioral health, social and wellness services for the Elder Service Program (ESP Project). The ESP Project cost approximately \$12,700,000 to complete. The facility opened and began operations in September 2017.

The ESP Project was funded by New Markets Tax Credits (NMTC) equity from US Bancorp Community Development Corporation (USB). The tax credit equity was combined with proceeds from two leverage loans from HHSI (see Note 8) to fund the Twain Investment Fund 152, LLC (the Investment Fund).

The NMTC program offers credits against Federal income taxes over a seven-year period (the compliance period) for Qualified Equity Investments (QEIs) in certified Community Development Entities (CDEs) pursuant to Section 45D of the IRC. To claim the NMTC, the CDEs must use substantially all of the proceeds of the QEIs to make a loan and/or an equity investment, which are qualified low-income community investments (QLICI), as defined in Section 45D of the IRC, to a Qualified Active Low Income Community Business (QALICB). NCS is a QALICB and leases the building to HHSI to operate the ESP Project in a manner intended to enable NCS to continue to qualify as a QALICB for the purposes of the NMTC within the meaning of Section 45D of the IRC.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 7. NEW MARKETS TAX CREDIT TRANSACTION (Continued)

The Investment Fund, using equity proceeds from USB and loans from HHSI, made QEIs into MassDevelopment New Markets CDE #22, LLC (MassDev CDE) and Capital Fund NMTC CDE #2, LLC (Capital Fund CDE) (collectively, the CDEs) for a 99.99% membership interest in the CDEs. The CDEs used the proceeds of the QEIs to provide loans to NCS (see Note 8).

#### Notes Receivable

As part of funding the ESP Project, HHSI entered into notes receivable agreements with the Investment Fund, using proceeds from the note from Bond 1 (see page 19) and unrestricted cash. HHSI's notes receivable from the Investment Fund as of June 30, 2019 and 2018, are as follows:

<u>Borrower</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Maturity Date</u>
Twain Investment Fund 152, LLC (Loan A)	1.00%	\$ 6,870,540	October 1, 2039
Twain Investment Fund 152, LLC (Loan B)	1.00%	<u>1,500,000</u>	October 1, 2039
		<u>\$ 8,370,540</u>	

Beginning in July 2016, accrued interest on the outstanding principal balance is due monthly through December 10, 2023. Commencing January 10, 2024, all accrued and unpaid interest, plus an amount of principal sufficient to amortize the outstanding principal over the remaining term of the note, will be due monthly. Any remaining balance of principal and interest shall be due on October 1, 2039. Future minimum payments under the agreements are \$245,190 for the year ended June 30, 2024, and \$8,125,350 thereafter.

The notes are secured by a first priority interest in the Investment Fund's ownership percentage in the CDEs. For the years ended June 30, 2019 and 2018, approximately \$84,000 of interest income was earned and is included in interest income in the accompanying combining statements of activities and changes in net assets.

The Agency entered into the following agreement as part of the ESP Project:

#### Master Lease

HHSI entered into a twenty-nine-year master lease agreement with NCS (see Note 12) for the ESP Project with monthly payments of \$14,917 through June 30, 2022. Beginning in July 2022, the monthly payments increase through the remainder of the lease agreement, as defined. Rents are recognized on a straight-line basis over the term of the lease in accordance with ASC Topic, *Leases*, under U.S. GAAP. During the years ended June 30, 2019 and 2018, NCS recorded rental income and HHSI recorded rental expense of \$526,080 based upon the straight-line method over the lease term. The rent accrued in excess of the rent paid is reflected as deferred rent receivable and deferred rent payable in the accompanying combining statements of financial position as of June 30, 2019 and 2018.

#### Put and Call Option

HHSI has granted USB the option (the Put Option) to sell its entire membership interest in the Investment Fund to HHSI for certain amounts defined in the agreements. The Put Option may be exercised by USB at any time during the period commencing on the last day of the compliance period and ending six months after the put exercise date (the Put Option Period).

In the event that USB does not exercise the Put Option during the Put Option Period, HHSI has the right and option to purchase the entire interest in the Investment Fund for certain amounts, as defined in the agreements, within six months commencing on the last day of the Put Option Period.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 7. NEW MARKETS TAX CREDIT TRANSACTION (Continued)

#### Fees

Pursuant to certain agreements (see Note 8), NCS is required to pay the following fees:

- **Payable to HHSI** - A developer fee of \$500,000 was paid as defined in the agreement. Payments were received through July 2017 (the construction period) in order to reimburse HHSI for project management services. As of June 30, 2018, the remainder of the development fee of \$412,000 was earned and paid to HHSI and was capitalized and included in development fee in the accompanying combining statement of activities and changes in net assets for the year ended June 30, 2018.
- **Payable to Capital Fund CDE** - An annual management fee of \$30,500, paid in arrears, beginning in August 2016 through August 2023, and an annual accounting fee of \$12,000 beginning in 2017 through 2045, except as noted below:
  - In 2023, a payment of \$24,000 is required.
  - In 2024, no payment is required.

The fees paid during fiscal years 2019 and 2018 were \$42,500 and are included in professional fees in the accompanying combining statements of functional expenses for the years ended June 30, 2019 and 2018.

### 8. LONG-TERM DEBT

#### ESP Project Long-Term Debt

NCS

As of June 30, 2019 and 2018, the CDEs made the following loans to NCS:

<u>Lender</u>	<u>Interest Rate</u>	<u>2019 Amount</u>	<u>2018 Amount</u>	<u>Maturity Date</u>
Capital Fund CDE - Note A-1	1.10%	\$ 3,465,770	\$ 3,465,770	December 1, 2045
MassDev CDE - Note A-2	1.10%	3,404,770	3,404,770	December 1, 2045
Capital Fund CDE - Note C-1	1.10%	1,823,230	1,823,230	December 1, 2045
MassDev CDE - Note C-2	1.10%	1,823,230	1,823,230	December 1, 2045
Capital Fund CDE - Note B-1	1.10%	750,000	750,000	December 1, 2045
MassDev CDE - Note B-2	1.10%	750,000	750,000	December 1, 2045
		<u>12,017,000</u>	<u>12,017,000</u>	
Less - unamortized debt issuance costs		<u>(320,960)</u>	<u>(401,385)</u>	
		<u>\$ 11,696,040</u>	<u>\$ 11,615,615</u>	

Interest-only payments are due on the outstanding principal through December 1, 2023. Beginning on January 1, 2024, interest, plus an amount of principal sufficient to amortize the outstanding principal over the remaining term of the note, will be due monthly through the maturity date. Future minimum payments under the agreements are \$242,157 for the year ending June 30, 2024, and \$11,774,843 thereafter. The notes are secured by a mortgage on the ESP Project, and all property of NCS and is guaranteed by HHSI.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 8. LONG-TERM DEBT (Continued)

During the first seven years of these loans, no prepayments are permitted. For the years ended June 30, 2019 and 2018, \$131,827 and \$120,841, respectively, of interest expense was incurred and is included in interest expense in the accompanying combining statements of activities and changes in net assets.

#### *HHSI*

In order to fund Loan A provided to the Investment Fund by HHSI (see Note 7), the Massachusetts Development Finance Agency (MDFA) issued \$6,870,540 of MDFA Revenue Bonds, Harbor Health Services Issue, Series 2016 (Bond 1) on behalf of HHSI. The bond bears interest at the adjusted London Interbank Offered Rate (LIBOR) (2.39% and 2.06% as of June 30, 2019 and 2018, respectively) (a per annum rate equal to the product of .65 times the sum of LIBOR plus 2.25%). Commencing August 1, 2016, interest-only payments are due on the outstanding principal through July 1, 2019. Commencing August 1, 2019, interest and principal are due monthly through the maturity date of July 1, 2046. The bond is secured by a pledge of HHSI's Loan A from the Investment Fund (see Note 7). The bond may be prepaid at any time including the amount of interest which would have been accrued on the amount throughout the bond term. The outstanding balance on this note as of June 30, 2019 and 2018, was \$6,870,540. Unamortized debt issuance service costs related to this note were \$28,376 and \$47,898 as of June 30, 2019 and 2018, respectively, and have been netted against long-term debt in the accompanying combining statements of financial position.

#### **Other HHSI Long-Term Debt**

HHSI also consolidated and refinanced other long-term debt into a new tax-exempt bond maturing in December 2045. MDFA issued \$9,012,000 of MDFA Revenue Bonds, Harbor Health Services Issue, Series 2015 (Bond 2) on behalf of HHSI. The bond bears interest at a fixed rate of 2.69% through December 2025. In January 2026, the rate adjusts to the Federal Home Loan Bank of Boston (FHLB) 10/20 Amortizing Advance Rate with a maximum rate of 4.5% during the period January 2026 to December 2030. The rate adjusts to the FHLB effective rate as of January 2031 for the remainder of the loan term. Monthly principal and interest payments of \$36,505 are due through maturity. Bond 2 is secured by a first mortgage on a building, along with an assignment of leases and rents. The bond is cross-collateralized with the line of credit (see Note 11). The bond can be prepaid at any time, subject to penalties and fees as described in the bond agreement. The outstanding balance on this bond as of June 30, 2019 and 2018, was \$8,298,880 and \$8,509,711, respectively. Unamortized debt issuance service costs related to the bond were \$54,329 and \$69,710 as of June 30, 2019 and 2018, respectively, and have been netted against long-term debt in the accompanying combining statements of financial position.

Total interest on the bonds payable was \$400,982 and \$406,966 for the years ended June 30, 2019 and 2018, respectively, and is included in interest expense in the accompanying combining statements of functional expenses.

The bonds contain various covenants with which HHSI was in compliance as of June 30, 2019 and 2018.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 8. LONG-TERM DEBT (Continued)

#### Other HHSI Long-Term Debt (Continued)

Based on the terms on page 19, the future minimum principal payments on the bonds over the next five years are as follows:

2020	\$	379,795
2021	\$	406,456
2022	\$	417,358
2023	\$	428,512
2024	\$	439,031
Thereafter	\$	13,098,268

### 9. DEBT ISSUANCE COSTS

The Agency incurred debt issuance costs of \$736,712 in relation to the bond issuances and ESP Project financing through the year ended June 30, 2017. These debt issuance costs are being amortized over the terms of the related bonds or notes payable. Amortization of debt issuance costs was \$115,328 and \$103,354 for the years ended June 30, 2019 and 2018, respectively, which is included in interest expense in the accompanying combining statements of functional expenses. Debt issuance costs, net of accumulated amortization, were \$403,665 and \$518,993 as of June 30, 2019 and 2018, respectively, which reduces from long-term debt in the accompanying combining statements of financial position (see Note 8). Amortization of debt issuance costs is expected to be approximately \$104,000 each year over the next four years and \$24,000 for fiscal year 2024.

### 10. INTEREST RATE SWAP CONTRACT

To hedge against potential interest rate exposure under Bond 1, HHSI has entered into an interest rate swap contract with a bank under the following terms, which effectively fixes the interest rate on the bond as of June 30, 2019 and 2018:

Notional Amount	\$	6,870,540
Fixed Rate Assumed by HHSI		1.009%
Basis for Variable Rate Assumed by Counterparty		65% of US LIBOR
Maturity Date		June 29, 2026
Effective Date		June 29, 2016
Counterparty		Citizens Bank

The swap contract is reported at fair value in the accompanying combining statements of financial position. Fair value was derived using Level 2 inputs (see Note 2), including prevailing credit spreads, market liquidity, assumed transaction and hedging costs, and other factors.

Any gain or loss in the value of the swap contract is recorded as changes in net assets without donor restrictions.

For the years ended June 30, 2019 and 2018, HHSI recorded unrealized losses of \$320,990 and unrealized gains of \$181,371, respectively, on the swap contract. The swap contract was in a gain position of \$42,829 and \$363,819 as of June 30, 2019 and 2018, respectively.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 11. LINE OF CREDIT

HHSI has a \$2,000,000 line of credit agreement with a bank. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's prime lending rate (5.50% and 5.00% at June 30, 2019 and 2018, respectively). The line of credit is secured by patient accounts receivable of HHSI and is cross-collateralized with Bond 2 described in Note 8. There was no outstanding balance at June 30, 2019 and 2018.

HHSI must maintain certain financial ratios, minimum balances and levels of working capital as specified in the agreement. HHSI must also meet certain covenants before any advances may be drawn. HHSI was in compliance with these financial ratios and covenants at June 30, 2019 and 2018. This agreement expires on December 31, 2019.

### 12. RELATED PARTY TRANSACTIONS

NCS leases two facilities to HHSI through 2045 (see Note 1). HHSI paid approximately \$46,000 and \$45,000 to NCS for rent for Minot Street during fiscal years 2019 and 2018, respectively. NCS paid HHSI \$4,000 for maintenance of the facility during fiscal years 2019 and 2018.

Through the New Markets Tax Credit Closing, NCS purchased the ESP Project building, construction in process and debt issuance costs from HHSI. NCS leases the ESP Property in Brockton, Massachusetts back to HHSI (see Note 7). The future minimum payments for the two facility leases are as follows:

2020	\$ 226,118
2021	\$ 227,060
2022	\$ 228,021
2023	\$ 250,002
2024	\$ 404,000

HHSI has the right to appoint two members of NCS's Board of Directors. NCS has an agreement with HHSI, that upon its liquidation, all of NCS's corporate assets are to be remitted to HHSI.

During fiscal year 2018, HHSI made a net asset transfer of \$54,944 to NCS for construction overages on the ESP Project in Brockton, Massachusetts.

During fiscal years 2019 and 2018, NCS made a support payment to HHSI for \$100,000 and \$50,000, respectively, from operating cash flow.

### 13. CONCENTRATIONS

The Agency maintains the majority of their cash balances in two regional banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amount. The Agency has not experienced any losses in such accounts. The Agency believes they are not exposed to any significant credit risk on cash and cash equivalents. Management monitors on a regular basis, the financial institution, along with their balances, to keep this potential risk to a minimum. The Agency has been moving funds into accounts insured by the Depositor Insurance Fund (DIF). DIF insures all balances over \$100,000. The Agency had approximately \$12,407,000 and \$14,163,000 insured under these programs at June 30, 2019 and 2018, respectively.



## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 13. CONCENTRATIONS (Continued)

At June 30, 2019 and 2018, receivables as a percentage of net accounts receivable from third-party payors consist of the following concentrations:

<u>Payor</u>	<u>2019</u>		<u>2018</u>	
	<u>Percentage of Revenue</u>	<u>Percentage of Net Accounts Receivable</u>	<u>Percentage of Revenue</u>	<u>Percentage of Net Accounts Receivable</u>
<b>Elder Service Plan</b>				
Medicare and Medicaid	90%	37%	92%	39%
<b>HHSI</b>				
Medicaid and related	30%	12%	38%	13%
HSN	9%	21%	7%	21%

### 14. 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 combining financial statements for any potential liability resulting from these lawsuits.

### 15. 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 Agency 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 Agency through its Section 330 Community Health Center grant administered by HRSA. The coverage afforded the Agency is comparable to an occurrence-based policy without a monetary cap. The coverage is applicable to the Agency, its officers, Board members, employees, and contractors who are physicians or other licensed or certified health care practitioners. In addition, the Agency maintains additional malpractice gap insurance.

### 16. ACCOUNTABLE CARE ORGANIZATION

The Agency is a member of the Steward Accountable Care Organization (Steward ACO). Steward ACO is a non-profit health care corporation organized to take responsibility for managing the cost and quality of health care for its members.

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

Notes to Combining Financial Statements  
June 30, 2019 and 2018

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### 17. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Agency's financial assets without donor restrictions available within one year from the combining statement of financial position date as of June 30, 2019, are as follows:

Cash and cash equivalents	\$ 15,363,752
Patient accounts receivable, net	6,855,053
Grants, contracts and other receivables	<u>1,602,819</u>
Total financial assets	23,821,624
Less - financial assets with donor restrictions	140,056
Less - Board designated	<u>1,522,888</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 22,158,680</u>

The Agency's financial assets are available for use to cover its obligations as they become due. As of June 30, 2019, the Agency has financial assets equal to approximately three months of operating expenses. The Agency also has Board designated financial assets of \$1,522,888 as of June 30, 2019, which are available for use with Board approval. Additionally, in the event of an unanticipated liquidity need, management has available a \$2,000,000 line of credit as discussed in Note 11.

### 18. RECLASSIFICATIONS

Certain amounts in the fiscal year 2018 combining financial statements have been reclassified to conform with the fiscal year 2019 combining presentation.

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Health and Human Services:</b>			
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	\$ 6,062,550
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	335,762
Passed-Through Commonwealth of Massachusetts, Department of Public Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	INTF2351M03183626042	10,070
Passed-Through Boston Public Health Commission:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	FY18018850A	20,818
HIV Emergency Relief Project Grants	93.914	FY2018/FY2019	<u>326,472</u>
Total U.S. Department of Health and Human Services			<u>6,755,672</u>
<b>U.S. Department of Agriculture:</b>			
Passed-Through Commonwealth of Massachusetts, Department of Public Health:			
WIC Special Supplemental Nutrition Program for Women, Infants, and Children - Food Vouchers	10.557	INTF3500J10200717294	1,738,325 *
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	INTF3502M03162726126	<u>546,266</u>
			2,284,591
WIC Grants to States (WGS)	10.578	INTF3502M03162726126	556
Passed-through Greater Boston Food Bank:			
Emergency Food Assistance Program (Food Commodities) (Food Distribution Cluster)	10.569	N/A	<u>11,156</u>
Total U.S. Department of Agriculture			<u>2,296,303</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 9,051,975</u>

**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.** \*This represents the WIC voucher amount. For purposes of the accompanying combining financing statements the related revenue and expense amounts have been shown net.

**Note 3.** Total CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse = \$30,888.

**Note 4. Indirect Cost Rate**

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



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Combining Financial Statements Performed in Accordance  
With Government Auditing Standards**

Independent Auditor's Report

To the Boards of Directors of  
Harbor Health Services, Inc. and Affiliate:

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 combining financial statements of Harbor Health Services, Inc. and Affiliate (collectively, the Agency), which comprise the combining statement of financial position as of June 30, 2019, and the related combining statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the combining financial statements, and have issued our report thereon dated November 6, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the combining 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 combining 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 combining 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.

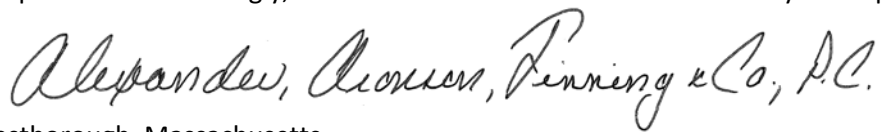
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in cursive script that reads "Alexander, Cronson, Fenning & Co., P.C.".

Westborough, Massachusetts  
November 6, 2019



**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 Boards of Directors of  
Harbor Health Services, Inc. and Affiliate:

**Report on Compliance for Each Major Federal Program**

We have audited Harbor Health Services, Inc. and Affiliate's (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 June 30, 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 requirements of laws, regulations, contracts and grants applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for 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 June 30, 2019.

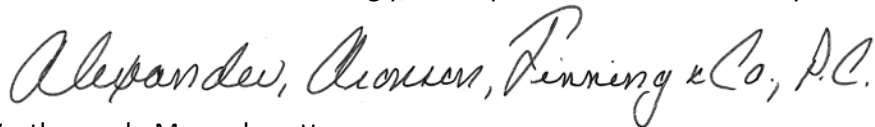
## Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on page 27. 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 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.



Westborough, Massachusetts  
November 6, 2019

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**

Schedule of Findings and Questioned Costs  
June 30, 2019

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**1. SUMMARY OF AUDITOR'S RESULTS**

**Combining Financial Statements**

Type of auditor's report issued on whether the combining 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        X   No

Internal control over financial reporting:

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

Noncompliance material to combining financial statements noted?             Yes        X   No

**Federal Awards**

Internal control over major Federal programs:

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

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

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

Identification of major Federal programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Health Center Program Cluster	93.224
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?        X   Yes             No



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**2. COMBINING FINANCIAL STATEMENT FINDINGS**

None

**3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None