



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

**COMBINING FINANCIAL STATEMENTS IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133  
JUNE 30, 2014 AND 2013  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

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

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JUNE 30, 2014 AND 2013**

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**UNMODIFIED OPINION ON FINANCIAL STATEMENTS ACCOMPANIED BY OTHER  
INFORMATION – NOT-FOR-PROFIT ENTITY**

Independent Auditor's Report

To the Board 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, 2014 and 2013, and the related combining statements of activities and changes in net assets and cash flows 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 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 above present fairly, in all material respects, the combining financial position of Harbor Health Services, Inc. and Affiliate as of June 30, 2014 and 2013, and the combining changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audits were conducted for the purpose of forming an opinion on the combining financial statements as a whole. The accompanying supplemental statements of operating expenses – Harbor Health Services, Inc. for the years ended June 30, 2014 and 2013, is presented for additional analysis and is not a required part of the combining financial statements. Also, the Schedule of Expenditures of Federal Awards for the year ended June 30, 2014, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 5, 2014, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

*Alexander, Brown, Fenning & Co., P.C.*

Boston, Massachusetts  
November 5, 2014

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

COMBINING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2014

ASSETS	HARBOR HEALTH SERVICES, INC.			NEPONSET COMMUNITY SERVICES, INC.	ELIMI- NATIONS	TOTAL		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED		UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents	\$ 13,880,481	\$ 469,786	\$ 14,350,267	\$ 211,880	\$ -	\$ 14,092,361	\$ 469,786	\$ 14,562,147
Patient accounts receivable, net of allowances and reserves of approximately \$2,323,000	3,202,598	-	3,202,598	-	-	3,202,598	-	3,202,598
Grants, contracts and other receivables	1,096,868	-	1,096,868	-	(10,058)	1,086,810	-	1,086,810
Pharmacy inventory	161,059	-	161,059	-	-	161,059	-	161,059
Prepaid expenses	646,250	-	646,250	-	(3,700)	642,550	-	642,550
Total current assets	<u>18,987,256</u>	<u>469,786</u>	<u>19,457,042</u>	<u>211,880</u>	<u>(13,758)</u>	<u>19,185,378</u>	<u>469,786</u>	<u>19,655,164</u>
<b>BOND RESERVES</b>	<u>605,085</u>	<u>-</u>	<u>605,085</u>	<u>-</u>	<u>-</u>	<u>605,085</u>	<u>-</u>	<u>605,085</u>
<b>CONSTRUCTION IN PROCESS</b>	<u>17,092</u>	<u>211,528</u>	<u>228,620</u>	<u>-</u>	<u>-</u>	<u>17,092</u>	<u>211,528</u>	<u>228,620</u>
<b>FINANCING COSTS, net</b>	<u>23,431</u>	<u>-</u>	<u>23,431</u>	<u>-</u>	<u>-</u>	<u>23,431</u>	<u>-</u>	<u>23,431</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>								
Land	3,192,836	-	3,192,836	34,687	-	3,227,523	-	3,227,523
Buildings and improvements	16,061,089	8,455,676	24,516,765	362,923	-	16,424,012	8,455,676	24,879,688
Computer and office equipment	2,088,444	1,035,398	3,123,842	-	-	2,088,444	1,035,398	3,123,842
Medical and clinical equipment	807,132	695,817	1,502,949	-	-	807,132	695,817	1,502,949
	<u>22,149,501</u>	<u>10,186,891</u>	<u>32,336,392</u>	<u>397,610</u>	<u>-</u>	<u>22,547,111</u>	<u>10,186,891</u>	<u>32,734,002</u>
Less - accumulated depreciation	<u>2,861,378</u>	<u>4,969,584</u>	<u>7,830,962</u>	<u>235,148</u>	<u>-</u>	<u>3,096,526</u>	<u>4,969,584</u>	<u>8,066,110</u>
Net property, plant and equipment	<u>19,288,123</u>	<u>5,217,307</u>	<u>24,505,430</u>	<u>162,462</u>	<u>-</u>	<u>19,450,585</u>	<u>5,217,307</u>	<u>24,667,892</u>
Total assets	<u>\$ 38,920,987</u>	<u>\$ 5,898,621</u>	<u>\$ 44,819,608</u>	<u>\$ 374,342</u>	<u>\$ (13,758)</u>	<u>\$ 39,281,571</u>	<u>\$ 5,898,621</u>	<u>\$ 45,180,192</u>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES:</b>								
Current portion of long-term debt	\$ 132,390	\$ -	\$ 132,390	\$ -	\$ -	\$ 132,390	\$ -	\$ 132,390
Accounts payable	1,825,435	-	1,825,435	10,058	(10,058)	1,825,435	-	1,825,435
Accrued expenses	5,883,554	-	5,883,554	-	-	5,883,554	-	5,883,554
Refundable advances	510,796	-	510,796	3,700	(3,700)	510,796	-	510,796
Total current liabilities	<u>8,352,175</u>	<u>-</u>	<u>8,352,175</u>	<u>13,758</u>	<u>(13,758)</u>	<u>8,352,175</u>	<u>-</u>	<u>8,352,175</u>
<b>LONG-TERM DEBT, net of current portion</b>	<u>12,410,352</u>	<u>-</u>	<u>12,410,352</u>	<u>-</u>	<u>-</u>	<u>12,410,352</u>	<u>-</u>	<u>12,410,352</u>
<b>NET ASSETS:</b>								
Operating	9,733,301	469,786	10,203,087	198,122	-	9,931,423	469,786	10,401,209
Property, plant and equipment	6,898,542	5,428,835	12,327,377	162,462	-	7,061,004	5,428,835	12,489,839
Board designated	1,526,617	-	1,526,617	-	-	1,526,617	-	1,526,617
Total net assets	<u>18,158,460</u>	<u>5,898,621</u>	<u>24,057,081</u>	<u>360,584</u>	<u>-</u>	<u>18,519,044</u>	<u>5,898,621</u>	<u>24,417,665</u>
Total liabilities and net assets	<u>\$ 38,920,987</u>	<u>\$ 5,898,621</u>	<u>\$ 44,819,608</u>	<u>\$ 374,342</u>	<u>\$ (13,758)</u>	<u>\$ 39,281,571</u>	<u>\$ 5,898,621</u>	<u>\$ 45,180,192</u>

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

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

COMBINING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2013

<u>ASSETS</u>	HARBOR HEALTH SERVICES, INC.			NEPONSET COMMUNITY SERVICES, INC.	ELIMI- NATIONS	TOTAL		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>		<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents	\$ 12,289,623	\$ 193,793	\$ 12,483,416	\$ 173,139	\$ -	\$ 12,462,762	\$ 193,793	\$ 12,656,555
Patient accounts receivable, net of allowances and reserves of approximately \$2,021,000	3,312,914	-	3,312,914	-	-	3,312,914	-	3,312,914
Grants, contracts and other receivables	829,993	98,549	928,542	-	-	829,993	98,549	928,542
Pharmacy inventory	135,698	-	135,698	-	-	135,698	-	135,698
Prepaid expenses	561,257	-	561,257	-	(3,700)	557,557	-	557,557
Total current assets	<u>17,129,485</u>	<u>292,342</u>	<u>17,421,827</u>	<u>173,139</u>	<u>(3,700)</u>	<u>17,298,924</u>	<u>292,342</u>	<u>17,591,266</u>
<b>BOND RESERVES</b>	<u>604,782</u>	<u>-</u>	<u>604,782</u>	<u>-</u>	<u>-</u>	<u>604,782</u>	<u>-</u>	<u>604,782</u>
<b>CONSTRUCTION IN PROCESS</b>	<u>278,865</u>	<u>312,251</u>	<u>591,116</u>	<u>-</u>	<u>-</u>	<u>278,865</u>	<u>312,251</u>	<u>591,116</u>
<b>FINANCING COSTS, net</b>	<u>69,911</u>	<u>-</u>	<u>69,911</u>	<u>-</u>	<u>-</u>	<u>69,911</u>	<u>-</u>	<u>69,911</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>								
Land	3,140,120	-	3,140,120	34,687	-	3,174,807	-	3,174,807
Buildings and improvements	17,005,047	3,348,407	20,353,454	357,208	-	17,362,255	3,348,407	20,710,662
Computer and office equipment	2,680,749	532,030	3,212,779	-	-	2,680,749	532,030	3,212,779
Medical and clinical equipment	154,892	1,839,684	1,994,576	-	-	154,892	1,839,684	1,994,576
	<u>22,980,808</u>	<u>5,720,121</u>	<u>28,700,929</u>	<u>391,895</u>	<u>-</u>	<u>23,372,703</u>	<u>5,720,121</u>	<u>29,092,824</u>
Less - accumulated depreciation	4,974,140	4,577,341	9,551,481	227,906	-	5,202,046	4,577,341	9,779,387
Net property, plant and equipment	<u>18,006,668</u>	<u>1,142,780</u>	<u>19,149,448</u>	<u>163,989</u>	<u>-</u>	<u>18,170,657</u>	<u>1,142,780</u>	<u>19,313,437</u>
Total assets	<u>\$ 36,089,711</u>	<u>\$ 1,747,373</u>	<u>\$ 37,837,084</u>	<u>\$ 337,128</u>	<u>\$ (3,700)</u>	<u>\$ 36,423,139</u>	<u>\$ 1,747,373</u>	<u>\$ 38,170,512</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>								
<b>CURRENT LIABILITIES:</b>								
Current portion of long-term debt	\$ 104,216	\$ -	\$ 104,216	\$ -	\$ -	\$ 104,216	\$ -	\$ 104,216
Accounts payable	935,253	-	935,253	-	-	935,253	-	935,253
Accrued expenses	5,800,418	-	5,800,418	-	-	5,800,418	-	5,800,418
Refundable advances	17,016	-	17,016	3,700	(3,700)	17,016	-	17,016
Total current liabilities	<u>6,856,903</u>	<u>-</u>	<u>6,856,903</u>	<u>3,700</u>	<u>(3,700)</u>	<u>6,856,903</u>	<u>-</u>	<u>6,856,903</u>
<b>LONG-TERM DEBT, net of current portion</b>	<u>13,051,182</u>	<u>-</u>	<u>13,051,182</u>	<u>-</u>	<u>-</u>	<u>13,051,182</u>	<u>-</u>	<u>13,051,182</u>
<b>NET ASSETS:</b>								
Operating	9,394,384	292,342	9,686,726	169,439	-	9,563,823	292,342	9,856,165
Property, plant and equipment	5,759,933	1,455,031	7,214,964	163,989	-	5,923,922	1,455,031	7,378,953
Board designated	1,027,309	-	1,027,309	-	-	1,027,309	-	1,027,309
Total net assets	<u>16,181,626</u>	<u>1,747,373</u>	<u>17,928,999</u>	<u>333,428</u>	<u>-</u>	<u>16,515,054</u>	<u>1,747,373</u>	<u>18,262,427</u>
Total liabilities and net assets	<u>\$ 36,089,711</u>	<u>\$ 1,747,373</u>	<u>\$ 37,837,084</u>	<u>\$ 337,128</u>	<u>\$ (3,700)</u>	<u>\$ 36,423,139</u>	<u>\$ 1,747,373</u>	<u>\$ 38,170,512</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, 2014  
(With Summarized Comparative Totals for the Year Ended June 30, 2013)

	2014					2013			
	HARBOR HEALTH SERVICES, INC.			NEPONSET COMMUNITY SERVICES, INC.	TOTAL			TOTAL	
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	ELIMI- NATIONS	UNRESTRICTED	TEMPORARILY RESTRICTED		TOTAL
<b>OPERATING REVENUES AND PUBLIC SUPPORT:</b>									
Net patient service revenue	\$ 49,170,592	\$ -	\$ 49,170,592	\$ -	\$ -	\$ 49,170,592	\$ -	\$ 49,170,592	\$ 46,854,213
Grants and contracts	7,243,112	386,792	7,629,904	-	-	7,243,112	386,792	7,629,904	6,860,950
Pharmacy revenue:									
Gross pharmacy sales - \$2,683,323									
Less - cost of sales - <u>\$1,089,363</u>									
Net pharmacy revenue	1,593,960	-	1,593,960	-	-	1,593,960	-	1,593,960	1,080,041
Other	90,926	-	90,926	44,400	(48,400)	86,926	-	86,926	94,990
Contributions and fundraising	12,975	-	12,975	-	-	12,975	-	12,975	53,466
Net assets released from restrictions:									
Operating	209,348	(209,348)	-	-	-	209,348	(209,348)	-	-
Property and equipment	370,631	(370,631)	-	-	-	370,631	(370,631)	-	-
Total operating revenues and public support	<u>58,691,544</u>	<u>(193,187)</u>	<u>58,498,357</u>	<u>44,400</u>	<u>(48,400)</u>	<u>58,687,544</u>	<u>(193,187)</u>	<u>58,494,357</u>	<u>54,943,660</u>
<b>OPERATING EXPENSES:</b>									
Personnel and related costs:									
Salaries and wages	24,269,168	-	24,269,168	-	-	24,269,168	-	24,269,168	22,582,917
Payroll taxes and fringe benefits	5,178,562	-	5,178,562	-	-	5,178,562	-	5,178,562	4,727,401
Independent providers and temporary help	308,505	-	308,505	-	-	308,505	-	308,505	286,264
Total personnel and related costs	<u>29,756,235</u>	<u>-</u>	<u>29,756,235</u>	<u>-</u>	<u>-</u>	<u>29,756,235</u>	<u>-</u>	<u>29,756,235</u>	<u>27,596,582</u>
Occupancy:									
Maintenance and utilities	1,446,033	-	1,446,033	8,900	(4,000)	1,450,933	-	1,450,933	1,271,968
Depreciation	1,283,695	-	1,283,695	7,242	-	1,290,937	-	1,290,937	1,149,085
Interest	480,300	-	480,300	-	-	480,300	-	480,300	494,861
Rent	496,785	-	496,785	-	(44,400)	452,385	-	452,385	471,342
Amortization	46,480	-	46,480	-	-	46,480	-	46,480	46,479
Real estate taxes	7,294	-	7,294	-	-	7,294	-	7,294	-
Total occupancy	<u>3,760,587</u>	<u>-</u>	<u>3,760,587</u>	<u>16,142</u>	<u>(48,400)</u>	<u>3,728,329</u>	<u>-</u>	<u>3,728,329</u>	<u>3,433,735</u>
Other costs:									
Consultants and patient care:									
Elder Service Plan	18,001,686	-	18,001,686	-	-	18,001,686	-	18,001,686	16,570,706
Supplies	1,833,141	-	1,833,141	104	-	1,833,245	-	1,833,245	1,589,872
Travel and transportation	957,764	-	957,764	-	-	957,764	-	957,764	1,011,486
Other	808,686	-	808,686	9	-	808,695	-	808,695	789,249
Professional fees	651,307	-	651,307	2,300	-	653,607	-	653,607	625,925
Bad debts	562,782	-	562,782	-	-	562,782	-	562,782	612,296
Communications	317,341	-	317,341	-	-	317,341	-	317,341	333,021
Insurance	179,613	-	179,613	-	-	179,613	-	179,613	166,799
Total other costs	<u>23,312,320</u>	<u>-</u>	<u>23,312,320</u>	<u>2,413</u>	<u>-</u>	<u>23,314,733</u>	<u>-</u>	<u>23,314,733</u>	<u>21,699,354</u>
Total operating expenses	<u>56,829,142</u>	<u>-</u>	<u>56,829,142</u>	<u>18,555</u>	<u>(48,400)</u>	<u>56,799,297</u>	<u>-</u>	<u>56,799,297</u>	<u>52,729,671</u>
Changes in net assets from operations	<u>1,862,402</u>	<u>(193,187)</u>	<u>1,669,215</u>	<u>25,845</u>	<u>-</u>	<u>1,888,247</u>	<u>(193,187)</u>	<u>1,695,060</u>	<u>2,213,989</u>
<b>NON-OPERATING REVENUES:</b>									
Loss on disposal of property, plant and equipment	(31,327)	-	(31,327)	-	-	(31,327)	-	(31,327)	(100,164)
Capital grants	-	4,366,047	4,366,047	-	-	-	4,366,047	4,366,047	385,065
Net assets released from capital restrictions	21,612	(21,612)	-	-	-	21,612	(21,612)	-	-
Interest income	124,147	-	124,147	1,311	-	125,458	-	125,458	97,330
Total non-operating revenues	<u>114,432</u>	<u>4,344,435</u>	<u>4,458,867</u>	<u>1,311</u>	<u>-</u>	<u>115,743</u>	<u>4,344,435</u>	<u>4,460,178</u>	<u>382,231</u>
Changes in net assets	<u>1,976,834</u>	<u>4,151,248</u>	<u>6,128,082</u>	<u>27,156</u>	<u>-</u>	<u>2,003,990</u>	<u>4,151,248</u>	<u>6,155,238</u>	<u>2,596,220</u>
<b>NET ASSETS, beginning of year</b>	<u>16,181,626</u>	<u>1,747,373</u>	<u>17,928,999</u>	<u>333,428</u>	<u>-</u>	<u>16,515,054</u>	<u>1,747,373</u>	<u>18,262,427</u>	<u>15,666,207</u>
<b>NET ASSETS, end of year</b>	<u>\$ 18,158,460</u>	<u>\$ 5,898,621</u>	<u>\$ 24,057,081</u>	<u>\$ 360,584</u>	<u>\$ -</u>	<u>\$ 18,519,044</u>	<u>\$ 5,898,621</u>	<u>\$ 24,417,665</u>	<u>\$ 18,262,427</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, 2013

	HARBOR HEALTH SERVICES, INC.			NEPONSET COMMUNITY SERVICES, INC.	ELIMI- NATIONS	TOTAL		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED		UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
<b>OPERATING REVENUES AND PUBLIC SUPPORT:</b>								
Net patient service revenue	\$ 46,854,213	\$ -	\$ 46,854,213	\$ -	\$ -	\$ 46,854,213	\$ -	\$ 46,854,213
Grants and contracts	6,546,655	314,295	6,860,950	-	-	6,546,655	314,295	6,860,950
Pharmacy revenue:								
Gross pharmacy sales - \$1,919,778								
Less - cost of sales - <u>\$839,737</u>								
Net pharmacy revenue	1,080,041	-	1,080,041	-	-	1,080,041	-	1,080,041
Other	98,990	-	98,990	44,400	(48,400)	94,990	-	94,990
Contributions and fundraising	53,466	-	53,466	-	-	53,466	-	53,466
Net assets released from restrictions:								
Operating	261,063	(261,063)	-	-	-	261,063	(261,063)	-
Property and equipment	300,222	(300,222)	-	-	-	300,222	(300,222)	-
Total operating revenues and public support	<u>55,194,650</u>	<u>(246,990)</u>	<u>54,947,660</u>	<u>44,400</u>	<u>(48,400)</u>	<u>55,190,650</u>	<u>(246,990)</u>	<u>54,943,660</u>
<b>OPERATING EXPENSES:</b>								
Personnel and related costs:								
Salaries and wages	22,582,917	-	22,582,917	-	-	22,582,917	-	22,582,917
Payroll taxes and fringe benefits	4,727,401	-	4,727,401	-	-	4,727,401	-	4,727,401
Independent providers and temporary help	286,264	-	286,264	-	-	286,264	-	286,264
Total personnel and related costs	<u>27,596,582</u>	<u>-</u>	<u>27,596,582</u>	<u>-</u>	<u>-</u>	<u>27,596,582</u>	<u>-</u>	<u>27,596,582</u>
Occupancy:								
Maintenance and utilities	1,270,945	-	1,270,945	5,023	(4,000)	1,271,968	-	1,271,968
Depreciation	1,141,816	-	1,141,816	7,269	-	1,149,085	-	1,149,085
Interest	494,861	-	494,861	606	(606)	494,861	-	494,861
Rent	515,742	-	515,742	-	(44,400)	471,342	-	471,342
Amortization	46,479	-	46,479	-	-	46,479	-	46,479
Total occupancy	<u>3,469,843</u>	<u>-</u>	<u>3,469,843</u>	<u>12,898</u>	<u>(49,006)</u>	<u>3,433,735</u>	<u>-</u>	<u>3,433,735</u>
Other costs:								
Consultants and patient care:								
Elder Service Plan	16,570,706	-	16,570,706	-	-	16,570,706	-	16,570,706
Supplies	1,589,816	-	1,589,816	56	-	1,589,872	-	1,589,872
Travel and transportation	1,011,486	-	1,011,486	-	-	1,011,486	-	1,011,486
Other	789,207	-	789,207	42	-	789,249	-	789,249
Professional fees	623,077	-	623,077	2,848	-	625,925	-	625,925
Bad debts	612,296	-	612,296	-	-	612,296	-	612,296
Communications	333,021	-	333,021	-	-	333,021	-	333,021
Insurance	166,799	-	166,799	-	-	166,799	-	166,799
Total other costs	<u>21,696,408</u>	<u>-</u>	<u>21,696,408</u>	<u>2,946</u>	<u>-</u>	<u>21,699,354</u>	<u>-</u>	<u>21,699,354</u>
Total operating expenses	<u>52,762,833</u>	<u>-</u>	<u>52,762,833</u>	<u>15,844</u>	<u>(49,006)</u>	<u>52,729,671</u>	<u>-</u>	<u>52,729,671</u>
Changes in net assets from operations	2,431,817	(246,990)	2,184,827	28,556	606	2,460,979	(246,990)	2,213,989
<b>NON-OPERATING REVENUES:</b>								
Net loss on sale/disposal of property, plant and equipment	(100,164)	-	(100,164)	-	-	(100,164)	-	(100,164)
Capital grants	-	385,065	385,065	-	-	-	385,065	385,065
Net assets released from capital restrictions	629,325	(629,325)	-	-	-	629,325	(629,325)	-
Interest income	96,639	-	96,639	1,297	(606)	97,330	-	97,330
Total non-operating revenues	<u>625,800</u>	<u>(244,260)</u>	<u>381,540</u>	<u>1,297</u>	<u>(606)</u>	<u>626,491</u>	<u>(244,260)</u>	<u>382,231</u>
Changes in net assets	3,057,617	(491,250)	2,566,367	29,853	-	3,087,470	(491,250)	2,596,220
<b>NET ASSETS, beginning of year</b>	<u>13,124,009</u>	<u>2,238,623</u>	<u>15,362,632</u>	<u>303,575</u>	<u>-</u>	<u>13,427,584</u>	<u>2,238,623</u>	<u>15,666,207</u>
<b>NET ASSETS, end of year</b>	<u>\$ 16,181,626</u>	<u>\$ 1,747,373</u>	<u>\$ 17,928,999</u>	<u>\$ 333,428</u>	<u>\$ -</u>	<u>\$ 16,515,054</u>	<u>\$ 1,747,373</u>	<u>\$ 18,262,427</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, 2014 AND 2013

	2014				2013			
	HARBOR HEALTH SERVICES, INC.	NEPONSET COMMUNITY SERVICES, INC.	ELIMI- NATIONS	TOTAL	HARBOR HEALTH SERVICES, INC.	NEPONSET COMMUNITY SERVICES, INC.	ELIMI- NATIONS	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Changes in net assets	\$ 6,128,082	\$ 27,156	\$ -	\$ 6,155,238	\$ 2,566,367	\$ 29,853	\$ -	\$ 2,596,220
Adjustments to reconcile changes in net assets to net cash provided by operating activities:								
Depreciation	1,283,695	7,242	-	1,290,937	1,141,816	7,269	-	1,149,085
Amortization	46,480	-	-	46,480	46,479	-	-	46,479
Capital grants	(4,366,047)	-	-	(4,366,047)	(385,065)	-	-	(385,065)
Loss on sale/disposal of property, plant and equipment	31,327	-	-	31,327	100,164	-	-	100,164
Bad debts	562,782	-	-	562,782	612,296	-	-	612,296
Interest earned on bond reserves	(303)	-	-	(303)	(302)	-	-	(302)
Changes in operating assets and liabilities:								
Patient accounts receivable	(452,466)	-	-	(452,466)	144,482	-	-	144,482
Grants, contracts and other receivables	(168,326)	-	10,058	(158,268)	(464,263)	-	-	(464,263)
Pharmacy inventory	(25,361)	-	-	(25,361)	15,575	-	-	15,575
Prepaid expenses	(84,993)	-	-	(84,993)	52,298	-	3,700	55,998
Accounts payable	455,628	10,058	(10,058)	455,628	(252,149)	-	-	(252,149)
Accrued expenses	70,138	-	-	70,138	1,319,852	-	-	1,319,852
Refundable advances	493,780	-	-	493,780	(1,361,687)	3,700	(3,700)	(1,361,687)
Net cash provided by operating activities	<u>3,974,416</u>	<u>44,456</u>	<u>-</u>	<u>4,018,872</u>	<u>3,535,863</u>	<u>40,822</u>	<u>-</u>	<u>3,576,685</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Acquisition of property, plant and equipment	(5,707,012)	(5,715)	-	(5,712,727)	(1,033,405)	-	-	(1,033,405)
Cash paid for construction in process	(153,944)	-	-	(153,944)	(332,571)	-	-	(332,571)
Payments on note receivable	-	-	-	-	22,950	-	(22,950)	-
Net cash used in investing activities	<u>(5,860,956)</u>	<u>(5,715)</u>	<u>-</u>	<u>(5,866,671)</u>	<u>(1,343,026)</u>	<u>-</u>	<u>(22,950)</u>	<u>(1,365,976)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>								
Capital grants	4,366,047	-	-	4,366,047	385,065	-	-	385,065
Principal payments on long-term debt	(612,656)	-	-	(612,656)	(99,998)	-	-	(99,998)
Proceeds on sale of building	-	-	-	-	510,579	-	-	510,579
Principal payments on note payable	-	-	-	-	-	(22,950)	22,950	-
Net cash provided by (used in) financing activities	<u>3,753,391</u>	<u>-</u>	<u>-</u>	<u>3,753,391</u>	<u>795,646</u>	<u>(22,950)</u>	<u>22,950</u>	<u>795,646</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>1,866,851</u>	<u>38,741</u>	<u>-</u>	<u>1,905,592</u>	<u>2,988,483</u>	<u>17,872</u>	<u>-</u>	<u>3,006,355</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>12,483,416</u>	<u>173,139</u>	<u>-</u>	<u>12,656,555</u>	<u>9,494,933</u>	<u>155,267</u>	<u>-</u>	<u>9,650,200</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 14,350,267</u>	<u>\$ 211,880</u>	<u>\$ -</u>	<u>\$ 14,562,147</u>	<u>\$ 12,483,416</u>	<u>\$ 173,139</u>	<u>\$ -</u>	<u>\$ 12,656,555</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>								
Construction in process placed in service	<u>\$ 529,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 529,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 480,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 480,300</u>	<u>\$ 494,861</u>	<u>\$ 606</u>	<u>\$ (606)</u>	<u>\$ 494,861</u>
Construction in process financed through accrued expenses and accounts payable	<u>\$ 12,998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Property, plant and equipment financed through accrued expenses and accounts payable	<u>\$ 479,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 479,449</u>	<u>\$ 44,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,895</u>
Cost basis of property, plant, and equipment disposed	<u>\$ 3,035,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,035,541</u>	<u>\$ 57,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,747</u>

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

## HARBOR HEALTH SERVICES, INC. AND AFFILIATE

### NOTES TO COMBINING FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

#### (1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

##### **OPERATIONS AND NONPROFIT STATUS**

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

NCS is a nonprofit organization formed in 1989 to provide health and social services, as well as manage and operate health facilities. NCS owns a facility in the Dorchester neighborhood of Boston, Massachusetts, which it leases to HHSI (see Note 10).

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 Neponset Health Center, the Geiger Gibson Community Health Center, the Harbor Community Health Center - Hyannis, the Ellen Jones Community Dental Center, Harbor Community Health Center – Plymouth, and the Elder Service Plan.

##### 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.

##### **SIGNIFICANT ACCOUNTING POLICIES**

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

##### Revenue Recognition

Contracts are recorded over the contract period as services are provided. Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed. Other revenue is recorded when earned.

The Agency has chosen under the provisions of U.S. GAAP to imply a time restriction on grants restricted by donors and used for the acquisition of property, plant and equipment. The restriction is met over the useful life of the restricted assets and transfers are made to unrestricted net assets each year equal to that year's depreciation (see page 11).

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

**NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition (Continued)

Patient service revenue is recorded as services are provided. The Agency 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 final settlements. Contractual allowances were approximately \$6,884,000 and \$6,329,000 for the years ended June 30, 2014 and 2013, respectively.

The Agency has a policy of providing free care services to patients who are unable to pay. Such patients are identified based upon financial information obtained from the patient prior to services being rendered. The Agency provided approximately \$6,115,000 and \$6,754,000 of free care during the years ended June 30, 2014 and 2013, respectively. The approximate cost of providing these services was \$7,129,000 and \$6,778,000 for the years ended June 30, 2014 and 2013, respectively. The cost of providing free care was calculated by multiplying the percentage of gross free care charges to gross patient charges by the total cost of providing patient services. The Agency adjudicates claims for these services; therefore, charges for free care have been included in net patient service revenue in the accompanying combining statements of activities and changes in net assets. The Agency received partial reimbursement from a third-party payor for free care services of approximately \$3,172,000 and \$2,936,000 during the years ended June 30, 2014 and 2013, respectively.

The Commonwealth of Massachusetts provides vouchers to participants of HHSP's Women, Infants and Children program. The value of these vouchers for fiscal years 2014 and 2013 was approximately \$1,665,000 and \$2,488,000, 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.

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.

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013

(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property, Plant and Equipment and Depreciation (Continued)

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

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

During fiscal year 2011, a building that housed HHSI's Harbor Family Health Center, was moved out of property, plant and equipment to property held for sale. The property was sold during fiscal year 2013 (see Note 6).

Included in building and improvements are leasehold improvements with a cost of \$1,347,005 and \$15,840 as of June 30, 2014 and 2013, respectively.

The Agency accounts for the carrying value of its property, plant and equipment in accordance with the requirements of *Impairment and Disposal of Long-Lived Assets*. As of June 30, 2014 and 2013, the Agency has not recognized any reduction in the carrying value of its property, plant and equipment in consideration of the requirement.

Construction in Process

Included in construction in process at June 30, 2014 and 2013, are costs related to renovations of one of HHSI's health centers (see Note 12).

Financing Costs

The Agency has capitalized \$212,000 in financing fees associated with its long-term debt (see Note 8). The financing fees were amortized over the term of the long-term debt. Amortization expenses were \$46,480 and \$46,479 for the years ended June 30, 2014 and 2013, respectively.

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.

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013

(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Deferred Revenue

Deferred revenue consists of third-party payor and contract advances.

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 statement 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, 2014 and 2013. The Agency's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Net Assets

Net assets consist of the following:

**Unrestricted Net Assets:**

Unrestricted net assets are those net resources that bear no external restriction and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets 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 unrestricted property, plant and equipment, including related reserves, 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>2014</u>	<u>2013</u>
Designated for property, plant and equipment and operations	\$1,500,000	\$1,000,000
Driscoll scholarship fund	<u>26,617</u>	<u>27,309</u>
	<u>\$1,526,617</u>	<u>\$1,027,309</u>

The above amounts may only be used with the approval of the Board of Directors. The Board of Directors designated \$500,000 to be added to this fund as of June 30, 2014 and 2013, from fiscal year 2014 and 2013 operations.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets (Continued)

**Temporarily Restricted Net Assets:**

The Agency receives contributions and grants that are designated by donors for specific purposes and time periods. These contributions and grants are recorded as temporarily restricted net assets until they are expended for their designated purposes.

Temporarily restricted net assets consist of the following at June 30:

<u>2014</u>	<u>Operating</u>	<u>Property, Plant and Equipment</u>	<u>Total</u>
Purpose restricted for operations	\$469,786	\$ -	\$ 469,786
Time restricted for property, plant and equipment (see page 7)	<u>-</u>	<u>5,428,835</u>	<u>5,428,835</u>
	<u>\$469,786</u>	<u>\$5,428,835</u>	<u>\$5,898,621</u>
<u>2013</u>	<u>Operating</u>	<u>Property, Plant and Equipment</u>	<u>Total</u>
Purpose restricted for operations	\$292,342	\$ -	\$ 292,342
Time restricted for property, plant and equipment (see page 7)	<u>-</u>	<u>1,455,031</u>	<u>1,455,031</u>
	<u>\$292,342</u>	<u>\$1,455,031</u>	<u>\$1,747,373</u>

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.

Subsequent Events

Subsequent events have been evaluated through November 5, 2014, 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 2014 and 2013, the Agency received donated professional services and rent. These amounts are reflected in contributions and fundraising on 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 \$11,315 and \$47,636 for the years ended June 30, 2014 and 2013, respectively.

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

Operating expenses consist of the following components:

	<u>2014</u>	<u>2013</u>
Program services	\$49,440,913	\$45,674,314
General and administrative	<u>7,358,384</u>	<u>7,055,357</u>
	<u>\$56,799,297</u>	<u>\$52,729,671</u>

Fair Value Measurements

ASC Topic *Fair Value Measurements* establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value hierarchy are 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. The Agency values its qualifying assets and liabilities using Level 1 inputs, except for property held for sale (see Note 6) which used Level 2 inputs.

(2) **FUNDING**

Grants and Contracts

The Agency received approximately \$4,552,000 and \$3,977,000 of its total operating revenues and public support during fiscal years 2014 and 2013, respectively, from the U.S. Department of Health and Human Services – Health Resources and Services Administration (HRSA).

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

**NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(Continued)

**(2) FUNDING** (Continued)

Grants and Contracts (Continued)

During May, 2012, the Agency was awarded two grants totaling \$5,025,075 from HRSA under the Patient Protection and Affordable Care Act to renovate two of the Agency's facilities (see Note 12). The Agency earned \$4,316,938 and \$312,251 of revenue under these grants during the years ended June 30, 2014 and 2013, which is included in capital grants in the accompanying combining statement of activities and changes in net assets. These grants are earned as capital expenditures are incurred. The remainder of these grants is expected to be earned during fiscal year 2015.

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, 2014 and 2013, 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, 2014 and 2013, or on the combining statements of activities and changes in net assets for the years then ended.

Effective March 1, 2014, the Agency entered into a Primary Care Payment Reform Initiative (PCPRI) contract with the Commonwealth of Massachusetts, Executive Office of Health and Human Services for services provided to certain MassHealth patients. PCPRI combines a shared savings/risk arrangement with quality incentives. PCPRI is a pilot program for the period March 1, 2014 to December 31, 2016. Year one is for the period March 1, 2014 to December 31, 2014, year two is for the period January 1, 2015 to December 31, 2015 and year three is for the period January 1, 2016 to December 31, 2016.

Under PCPRI, the Agency receives reimbursement from MassHealth under the following payment model:

- 1) Comprehensive Primary Care Payment (CPCP) – a risk adjusted per panel enrollee, per month payment.
- 2) Quality Incentive Payment (QIP) – Annual incentive for reporting and performance on pre-defined primary care quality metrics.
- 3) Shared Savings Payment (SSP) – Annual payment to the Health Center based upon savings on non-primary care spending by MassHealth, including hospitalizations and specialty services.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

(Continued)

**(2) FUNDING (Continued)**

Patient Service Revenue (Continued)

During fiscal year 2014, the Agency received CPCP payments of approximately \$570,000 which are included in net patient service revenue in the accompanying statements of activities and changes in net assets. The Health Center is eligible for a Hold Harmless settlement if the Agency's CPCP payments are less than what the reimbursement has been under traditional fee for service reimbursement from MassHealth as defined in the PCPRI contract. The Hold Harmless settlements are determined on a quarterly basis beginning with the period ended June 30, 2014. The Agency does not expect a Hold Harmless settlement at June 30, 2014.

The QIP is an annual incentive payment based upon the Agency's pool performance on pre-defined primary care metrics. For year one of the pilot program, the QIP will be based upon the Agency's reporting of certain quality metrics. In years two and three the QIP will also incorporate performance on certain quality metrics.

The SSP is calculated annually based upon the difference between the actual spending and targeted spending as determined by MassHealth. During year 1, the Agency is entitled to a settlement due from MassHealth if the actual spending is less than the targeted spending. In years two and three, the Agency could be subject to a settlement owed to MassHealth if the actual spending is more than the targeted spending based upon certain criteria as defined in the PCPRI contract.

The QIP and SSP are paid retrospectively at the end of each contract year, once sufficient time has elapsed for calculation and processing by MassHealth. Since any QIP and SSP settlements for 2014 cannot be determined as of June 30, 2014, there have been no settlements recorded in the accompanying combining financial statements.

The Agency could owe CPCP payments back to MassHealth if it has received payments for patients not seen by the Agency within eighteen months of the end of each year. The Agency has estimated that no settlement is due as of June 30, 2014.

**(3) COMMITMENTS**

The Agency leases facilities as a tenant at will and under operating leases that expire at various dates through December, 2018. The aggregate monthly payments under these lease agreements were \$29,100 and \$20,000 as of June 30, 2014 and 2013, respectively. The Agency is responsible for its proportionate share of real estate taxes and operating expenses as defined in these lease agreements. The leases also require the Agency to maintain certain insurance coverage. The Agency has an option to extend the leases for an additional three-year and five-year term under the same terms, as defined in the agreements.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(Continued)

**(3) COMMITMENTS** (Continued)

The Agency entered into an operating lease agreement for equipment beginning in June, 2014 with aggregate monthly payments under this lease of \$2,550. The lease expires in June, 2017.

Remaining minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	<u>Facility</u>	<u>Equipment</u>
2015	\$349,200	\$30,605
2016	\$349,200	\$30,605
2017	\$349,200	\$29,329
2018	\$349,200	\$ -
2019	\$ 54,600	\$ -

**(4) RETIREMENT PLAN**

The Agency maintains a defined contribution retirement plan for employees who have completed at least one year of employment and have at least 1,000 hours of service. The 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 \$659,307 and \$489,637 in fiscal years 2014 and 2013, respectively, and are included in payroll taxes and fringe benefits in the accompanying combining financial statements.

**(5) 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. The Agency is recognized by the National PACE Association as an approved PACE provider.

The Agency is reimbursed for services based on a per capita monthly rate. The Agency recognized revenue of approximately \$33,857,000 and \$32,298,000 for the years ended June 30, 2014 and 2013, 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.

The Agency 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. The Agency 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. The amount of future liability, if any, is not ascertainable and has not been recorded in the accompanying combining financial statements at this time. Any resulting liability will be recorded in the period it becomes determinable.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(Continued)

**(6) SALE OF PROPERTY**

HHSI closed a building that housed HHSI's Harbor Family Health Center during fiscal year 2008. On August 31, 2012, the property was sold for \$510,579, net of related closing costs and legal fees. The loss on the sale of \$86,369 is included in loss on sale of property, plant and equipment in the accompanying combining statement of activities for the year ended June 30, 2013.

**(7) LINE OF CREDIT**

The Agency 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 (3.25% at June 30, 2014 and 2013). The line of credit is secured by patient accounts receivable of the Agency. There was no outstanding balance at June 30, 2014 and 2013. The Agency must maintain certain financial ratios, minimum balances and levels of working capital as specified in the agreement. The Agency must also meet certain covenants before any advances may be drawn. The Agency was in compliance with these financial ratios and covenants at June 30, 2014 and 2013. This agreement expires on December 31, 2015.

**(8) LONG-TERM DEBT**

The Agency has the following debt instruments at June 30, 2014 and 2013:

Bonds Payable

The Massachusetts Health and Educational Facilities Authority (HEFA) issued \$2,989,100 of Revenue Bonds (Harbor Health Services Issue, Series B (2008)) on behalf of the Agency. In conjunction with the issuance of the bonds, the Agency entered into a loan and trust agreement with a limited liability company and a bank. The bonds bear interest at a fixed rate of 4.46% through December 29, 2015. The bonds are due in monthly principal and interest installments over a twenty-five year amortization period. All outstanding principal is due on December 29, 2015, the bonds' maturity. The bonds are secured by a first mortgage on the building. The bonds may be prepaid in whole or in part at the election of the Agency, but the Agency may be subject to a prepayment penalty as defined in the agreement.

During fiscal year 2013, the Agency's debt service coverage ratio exceeded a benchmark in the loan and trust agreement which requires the Agency to make an additional principal payment towards the bond payable. During fiscal year 2014, the Agency made an additional \$500,000 payment towards the bond to meet this requirement. There is no additional payment required at June 30, 2014. The bonds have an outstanding balance of \$2,092,742 and \$2,705,398 as of June 30, 2014 and 2013, respectively.

Notes Payable

The Agency has a note payable agreement for \$7,610,900 with Mass HEFA New Markets Subsidiary CDE #2 LLC. The agreement required monthly interest only payments based on a fixed rate of 4.46% through December 29, 2015, the note's maturity. This note payable is secured by a first mortgage on the building.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(Continued)

**(8) LONG-TERM DEBT** (Continued)

Notes Payable (Continued)

The Agency has a note payable agreement for \$2,839,100 with Mass HEFA New Markets Subsidiary CDE #2 LLC. The agreement requires monthly interest only payments at an interest rate of .9123%, per annum, from January, 2009, through December 29, 2015. Beginning January 29, 2016, interest will accrue at prime rate (3.25% at June 30, 2014 and 2013), plus 165 basis points, provided that the rate is not less than 4.35%, through December 31, 2048, the note's maturity. This note payable is secured by a second mortgage on the building.

Total interest on the notes and bonds payable was \$480,300 and \$494,861 for the years ended June 30, 2014 and 2013, respectively. During the years ended June 30, 2014 and 2013, there was no interest capitalized.

The bonds and notes payable contain various covenants with which the Agency was in compliance as of June 30, 2014 and 2013.

Future minimum principal payments on the long term debt over the next 5 years are as follows:

2015	\$ 132,390
2016	\$9,571,252

**(9) BOND RESERVES**

In accordance with the long-term debt agreements (see Note 8), the Agency was required to establish two interest reserve funds which total \$605,085 and \$604,782 as of June 30, 2014 and 2013, respectively. These funds were established to guarantee interest payments and will be used to reduce the principal amount due at maturity. These funds are presented as bond reserves in the accompanying combining statements of financial position.

**(10) RELATED PARTY TRANSACTIONS**

NCS is related to HHSI through common Board of Directors membership. NCS leases its facility to HHSI (see Note 1). HHSI paid approximately \$44,000 to NCS for rent during fiscal years 2014 and 2013. NCS paid HHSI \$4,000 for maintenance of the facility during fiscal years 2014 and 2013. HHSI also loaned \$200,000 to NCS during 2003 (see Note 11). This loan was fully repaid during fiscal year 2013.

HHSI has the right to appoint the majority 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.

**(11) NOTE RECEIVABLE**

In 2003, HHSI loaned \$200,000 to NCS (see Note 10). The note was due in monthly principal and interest installments of \$2,144, with interest at 5.125%. The note was secured by a mortgage on NCS's property. This note was fully repaid during fiscal year 2013.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(Continued)

**(12) CONSTRUCTION IN PROCESS**

Construction in process consists of improvements to the Agency's facilities in Hyannis and Dorchester, Massachusetts, using the proceeds from two Federal grants (see Note 2). The total cost to complete the renovations is expected to be approximately \$396,000. Construction is anticipated to be completed during fiscal year 2015.

**(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. HHSI has been moving funds into accounts insured by the Depositor Insurance Fund (DIF). DIF insures all balances over \$100,000. HHSI had approximately \$11,223,000 and \$11,091,000 insured under these programs at June 30, 2014 and 2013, respectively.

At June 30, 2014 and 2013, revenues and receivables from third-party payors consist of the following concentrations:

<u>Payor</u>	<u>2014</u>		<u>2013</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	50%	- %	51%	- %
Medicaid	44%	- %	44%	- %
<b>The Health Centers</b>				
Medicaid and related	34%	26%	33%	20%
HSN	14%	28%	16%	33%
Commonwealth Care	10%	4%	12%	5%

**(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.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(Continued)

**(15) MEDICAL MALPRACTICE INSURANCE**

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 Health Resources and Services Administration (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) RECLASSIFICATIONS**

Certain amounts in the fiscal year 2013 combining financial statements have been reclassified to conform with the fiscal year 2014 presentation.

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

SUPPLEMENTAL STATEMENT OF OPERATING EXPENSES - HARBOR HEALTH SERVICES, INC.  
FOR THE YEAR ENDED JUNE 30, 2014  
(With Summarized Comparative Totals for the Year Ended June 30, 2013)

	2014								2013			
	PROGRAM SERVICES									TOTAL	TOTAL	
	NEPONSET 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	CENTRAL LAB	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS- TRATION		
<b>PERSONNEL AND RELATED COSTS:</b>												
Salaries and wages	\$ 7,492,429	\$ 2,058,150	\$ 5,535,424	\$ 523,783	\$ 829,611	\$ 3,411,618	\$ 186,169	\$ 313,422	\$ 20,350,606	\$ 3,918,562	\$ 24,269,168	\$ 22,582,917
Payroll taxes and fringe benefits	1,600,358	368,482	1,163,583	138,228	217,914	580,487	31,545	105,363	4,205,960	972,602	5,178,562	4,727,401
Independent providers and temporary help	87,540	2,338	51,499	-	-	12,029	-	-	153,406	155,099	308,505	286,264
Total personnel and related costs	9,180,327	2,428,970	6,750,506	662,011	1,047,525	4,004,134	217,714	418,785	24,709,972	5,046,263	29,756,235	27,596,582
<b>OCCUPANCY:</b>												
Maintenance and utilities	351,328	137,805	24,797	2,992	24,907	138,887	69,623	474	750,813	695,220	1,446,033	1,270,945
Depreciation	246,107	65,672	282,914	-	41,901	190,447	33,169	1,394	861,604	422,091	1,283,695	1,141,816
Rent	27,864	240,000	22,800	45,575	-	139,650	14,560	-	490,449	6,336	496,785	515,742
Interest	-	-	301,450	-	-	-	-	-	301,450	178,850	480,300	494,861
Amortization	-	-	29,422	-	-	-	-	-	29,422	17,058	46,480	46,479
Real estate taxes	7,294	-	-	-	-	-	-	-	7,294	-	7,294	-
Total occupancy	632,593	443,477	661,383	48,567	66,808	468,984	117,352	1,868	2,441,032	1,319,555	3,760,587	3,469,843
<b>OTHER COSTS:</b>												
Consultants and patient care:												
Elder Service Plan	-	-	18,001,686	-	-	-	-	-	18,001,686	-	18,001,686	16,570,706
Supplies	430,391	222,951	532,250	3,091	173,092	356,854	46,224	1,376	1,766,229	66,912	1,833,141	1,589,816
Travel and transportation	36,378	24,405	752,783	975	4,823	20,711	1,910	660	842,645	115,119	957,764	1,011,486
Other	180,560	50,625	123,448	3,805	8,524	87,944	16,908	3,761	475,575	333,111	808,686	789,207
Professional fees	167,029	59,971	129,050	420	1,207	22,093	6,161	2,800	388,731	262,576	651,307	623,077
Bad debts	268,887	141,319	36,516	-	20,032	95,605	423	-	562,782	-	562,782	612,296
Communications	79,163	25,304	33,848	10,264	14,954	45,565	7,725	782	217,605	99,736	317,341	333,021
Insurance	27,116	1,515	13,028	-	2,105	20,737	-	-	64,501	115,112	179,613	166,799
Total other costs	1,189,524	526,090	19,622,609	18,555	224,737	649,509	79,351	9,379	22,319,754	992,566	23,312,320	21,696,408
Total expenses before allocations	11,002,444	3,398,537	27,034,498	729,133	1,339,070	5,122,627	414,417	430,032	49,470,758	7,358,384	56,829,142	52,762,833
<b>CENTRAL LAB ALLOCATION</b>	313,923	116,109	-	-	-	-	-	(430,032)	-	-	-	-
<b>COMMUNITY HEALTH CENTER ALLOCATION</b>	239,285	73,913	-	15,857	29,123	111,409	9,013	-	478,600	(478,600)	-	-
<b>MORTON STREET ALLOCATION</b>	-	-	567,565	-	-	-	-	-	567,565	(567,565)	-	-
<b>GENERAL AND ADMINISTRATION ALLOCATION</b>	1,416,167	437,439	3,479,713	93,849	172,357	659,353	53,341	-	6,312,219	(6,312,219)	-	-
Total expenses	\$ 12,971,819	\$ 4,025,998	\$ 31,081,776	\$ 838,839	\$ 1,540,550	\$ 5,893,389	\$ 476,771	\$ -	\$ 56,829,142	\$ -	\$ 56,829,142	\$ 52,762,833

HARBOR HEALTH SERVICES, INC. AND AFFILIATE

SUPPLEMENTAL STATEMENT OF OPERATING EXPENSES - HARBOR HEALTH SERVICES, INC.  
FOR THE YEAR ENDED JUNE 30, 2013

	PROGRAM SERVICES							GENERAL AND ADMINIS- TRATION	TOTAL	
	NEPONSET HEALTH CENTER	GEIGER GIBSON COMMUNITY HEALTH CENTER	ELDER SERVICE PLAN	WOMEN, INFANTS AND CHILDREN	ELLEN JONES COMMUNITY DENTAL CENTER	HARBOR COMMUNITY HEALTH CENTER - HYANNIS	CENTRAL LAB			TOTAL PROGRAM SERVICES
<b>PERSONNEL AND RELATED COSTS:</b>										
Salaries and wages	\$ 6,711,943	\$ 1,967,462	\$ 5,528,637	\$ 483,613	\$ 776,644	\$ 3,072,960	\$ 307,064	\$ 18,848,323	\$ 3,734,594	\$ 22,582,917
Payroll taxes and fringe benefits	1,460,839	328,764	1,133,575	118,486	202,818	527,662	89,314	3,861,458	865,943	4,727,401
Independent providers and temporary help	77,623	41,531	40,171	-	-	-	-	159,325	126,939	286,264
Total personnel and related costs	<u>8,250,405</u>	<u>2,337,757</u>	<u>6,702,383</u>	<u>602,099</u>	<u>979,462</u>	<u>3,600,622</u>	<u>396,378</u>	<u>22,869,106</u>	<u>4,727,476</u>	<u>27,596,582</u>
<b>OCCUPANCY:</b>										
Maintenance and utilities	366,066	117,727	27,520	10,150	27,537	115,681	1,332	666,013	604,932	1,270,945
Depreciation	254,637	70,967	297,109	-	43,236	22,014	885	688,848	452,968	1,141,816
Rent	27,966	270,000	22,800	45,575	-	139,417	-	505,758	9,984	515,742
Interest	-	-	311,911	-	-	-	-	311,911	182,950	494,861
Amortization	-	-	27,887	-	-	-	-	27,887	18,592	46,479
Total occupancy	<u>648,669</u>	<u>458,694</u>	<u>687,227</u>	<u>55,725</u>	<u>70,773</u>	<u>277,112</u>	<u>2,217</u>	<u>2,200,417</u>	<u>1,269,426</u>	<u>3,469,843</u>
<b>OTHER COSTS:</b>										
Consultants and patient care:										
Elder Service Plan	-	-	16,570,706	-	-	-	-	16,570,706	-	16,570,706
Supplies	442,291	203,698	465,343	10,028	131,908	262,572	310	1,516,150	73,666	1,589,816
Travel and transportation	32,228	56,603	784,098	1,177	4,844	16,590	289	895,829	115,657	1,011,486
Other	190,286	66,123	139,542	6,371	12,983	61,196	3,492	479,993	309,214	789,207
Professional fees	106,202	38,327	114,216	1,285	1,110	13,491	1,200	275,831	347,246	623,077
Bad debts	275,528	207,737	20,047	-	15,898	93,086	-	612,296	-	612,296
Communications	74,678	32,326	35,056	14,833	15,174	47,251	3,065	222,383	110,638	333,021
Insurance	26,651	2,445	12,844	-	-	22,825	-	64,765	102,034	166,799
Total other costs	<u>1,147,864</u>	<u>607,259</u>	<u>18,141,852</u>	<u>33,694</u>	<u>181,917</u>	<u>517,011</u>	<u>8,356</u>	<u>20,637,953</u>	<u>1,058,455</u>	<u>21,696,408</u>
Total expenses before allocations	10,046,938	3,403,710	25,531,462	691,518	1,232,152	4,394,745	406,951	45,707,476	7,055,357	52,762,833
<b>CENTRAL LAB ALLOCATION</b>	297,074	109,877	-	-	-	-	(406,951)	-	-	-
<b>COMMUNITY HEALTH CENTER ALLOCATION</b>	258,737	87,656	-	17,809	31,732	113,178	-	509,112	(509,112)	-
<b>MORTON STREET ALLOCATION</b>	-	-	570,763	-	-	-	-	570,763	(570,763)	-
<b>GENERAL AND ADMINISTRATION ALLOCATION</b>	1,325,267	448,975	3,367,794	91,216	162,530	579,700	-	5,975,482	(5,975,482)	-
Total expenses	<u>\$ 11,928,016</u>	<u>\$ 4,050,218</u>	<u>\$ 29,470,019</u>	<u>\$ 800,543</u>	<u>\$ 1,426,414</u>	<u>\$ 5,087,623</u>	<u>\$ -</u>	<u>\$ 52,762,833</u>	<u>\$ -</u>	<u>\$ 52,762,833</u>

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b><u>U.S. Department of Health and Human Services:</u></b>			
Direct Federal Funds:			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Healthcare for the Homeless, and Public Housing Primary Care) (Health Centers Cluster)	93.224	H80CS00743	\$ 4,212,535
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	339,697
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	C8ACS23725-01-01	<u>4,316,938</u>
Total U.S. Department of Health and Human Services			<u>8,869,170</u>
<b><u>U.S. Department of Agriculture:</u></b>			
Passed-Through Commonwealth of Massachusetts, Department of Public Health:			
Special Supplemental Nutrition Program for Women, Infants and Children – Vouchers	10.557	INTF3500J10601011047	*1,664,614
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	INTF3502M03700915061	<u>572,615</u>
Total CFDA #10.557	10.557		2,237,229
Passed-Through Greater Boston Food Bank:			
Emergency Food Assistance Program (Food Commodities) (Food Distribution Cluster)	10.569	N/A	<u>11,315</u>
Total U.S. Department of Agriculture			<u>2,248,544</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$11,117,714</u></b>

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
(Continued)

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards – not-for-profit organization 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

**NOTE 2.** \*This represents the WIC voucher amount. For purposes of the accompanying combined 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  
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, 2014, and the related combining statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the combining financial statements, and have issued our report thereon dated November 5, 2014.

**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.



Boston, Massachusetts  
November 5, 2014

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

Independent Auditor's Report

To the Board 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 Circular A-133 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, 2014. 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 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2014.

### **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 above. 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Boston, Massachusetts  
November 5, 2014

**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2014**

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

*Combining Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified?	_____ Yes	_____ <u>X</u> None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified?	_____ Yes	_____ <u>X</u> None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____ Yes	_____ <u>X</u> No
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Identification of major programs:

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Healthcare for Homeless, and Public Housing Primary Care) (Health Centers Cluster)	93.224
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557

Dollar threshold used to distinguish between Type A and Type B programs: \$333,531.

Auditee qualified as low-risk auditee?	_____ <u>X</u> Yes	_____ No
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**HARBOR HEALTH SERVICES, INC. AND AFFILIATE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2014**  
(Continued)

**II. FINANCIAL STATEMENT FINDINGS**

None

**III. FINDINGS AND QUESTIONS COSTS FOR FEDERAL AWARDS**

None