



Boston Health Care for the Homeless Program

**FINANCIAL STATEMENTS  
JUNE 30, 2016**

**THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.**

Contents  
June 30, 2016

---

	<b><u>Pages</u></b>
<b>Independent Auditor's Report</b> .....	1
<b>Financial Statements:</b>	
Statement of Financial Position .....	2
Statement of Activities .....	3
Statement of Changes in Net Assets .....	4
Statement of Cash Flows .....	5
Statement of Functional Expenses .....	6
Notes to Financial Statements .....	7 - 17



21 East Main Street  
Westborough, MA 01581  
508.366.9100  
aafcpa.com

## Independent Auditor's Report

To the Board of Directors of  
The Boston Health Care for the Homeless Program, Inc.:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Boston Health Care for the Homeless Program, Inc. (a Massachusetts corporation, not for profit), which comprise the statement of financial position as of June 30, 2016, the related statement of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Boston Health Care for the Homeless Program, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Boston, Massachusetts  
October 11, 2016

**THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.**

Statement of Financial Position  
June 30, 2016

<b>Assets</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Current Assets:				
Cash	\$ 6,168,772	\$ 1,114,807	\$ -	\$ 7,283,579
Patient services receivable, net of allowance for doubtful accounts of \$520,523	5,166,264	-	-	5,166,264
Contract, grant and other receivables	1,097,826	-	-	1,097,826
Inventory	422,544	-	-	422,544
Prepaid expenses, deposits and other	232,237	-	-	232,237
Total current assets	13,087,643	1,114,807	-	14,202,450
Investments	19,978,629	1,903,031	5,000,000	26,881,660
Property and Equipment, net	28,808,606	-	-	28,808,606
Total assets	\$ 61,874,878	\$ 3,017,838	\$ 5,000,000	\$ 69,892,716
<b>Liabilities and Net Assets</b>				
Accounts Payable	\$ 1,337,686	\$ -	\$ -	\$ 1,337,686
Accrued Expenses	4,146,180	-	-	4,146,180
Total liabilities	5,483,866	-	-	5,483,866
Net Assets:				
Operating	7,603,777	-	-	7,603,777
Board designated - investments	19,978,629	-	-	19,978,629
Facilities endowment	-	1,903,031	5,000,000	6,903,031
Property and equipment	28,808,606	-	-	28,808,606
Temporarily restricted - program activity	-	1,114,807	-	1,114,807
Total net assets	56,391,012	3,017,838	5,000,000	64,408,850
Total liabilities and net assets	\$ 61,874,878	\$ 3,017,838	\$ 5,000,000	\$ 69,892,716

The accompanying notes are an integral part of these statements.

**THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.**

Statement of Activities  
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenues:</b>				
Net patient service revenue	\$ 41,306,074	\$ -	\$ -	\$ 41,306,074
Contract revenue	6,616,170	-	-	6,616,170
Grants and contributions	3,742,422	1,528,449	-	5,270,871
Interest income and other	710,614	-	-	710,614
Investment return (facilities endowment) appropriated for operations	378,000	-	-	378,000
Net assets released from program restrictions	1,246,463	(1,246,463)	-	-
Total support and revenues	<u>53,999,743</u>	<u>281,986</u>	<u>-</u>	<u>54,281,729</u>
<b>Operating Expenses:</b>				
McInnis Medical Respite	16,581,395	-	-	16,581,395
Pharmacy	12,787,821	-	-	12,787,821
Adult Outreach	11,342,480	-	-	11,342,480
Boston Medical Center Clinic	4,915,484	-	-	4,915,484
Mental Health	3,192,554	-	-	3,192,554
Dental Services	1,901,253	-	-	1,901,253
Family Team	1,487,077	-	-	1,487,077
Development	1,146,803	-	-	1,146,803
The Institute	267,967	-	-	267,967
Total operating expenses	<u>53,622,834</u>	<u>-</u>	<u>-</u>	<u>53,622,834</u>
Changes in net assets from operations	<u>376,909</u>	<u>281,986</u>	<u>-</u>	<u>658,895</u>
<b>Non-Operating Revenues (Expenses):</b>				
Capital grant	-	150,000	-	150,000
Net assets released from capital restrictions	506,955	(506,955)	-	-
Research non-operating costs	(14,071)	-	-	(14,071)
Investment return (facilities endowment) appropriated for operations	-	(378,000)	-	(378,000)
Investment return, net of investment fees	(793,316)	(7,275)	-	(800,591)
Total non-operating revenues (expenses)	<u>(300,432)</u>	<u>(742,230)</u>	<u>-</u>	<u>(1,042,662)</u>
Changes in net assets	<u>\$ 76,477</u>	<u>\$ (460,244)</u>	<u>\$ -</u>	<u>\$ (383,767)</u>

The accompanying notes are an integral part of these statements.

**THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.**

Statement of Changes in Net Assets  
For the Year Ended June 30, 2016

---

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Net Assets, June 30, 2015</b>	\$ 56,314,535	\$ 3,478,082	\$ 5,000,000	\$ 64,792,617
Changes in net assets	<u>76,477</u>	<u>(460,244)</u>	<u>-</u>	<u>(383,767)</u>
<b>Net Assets, June 30, 2016</b>	<u><u>\$ 56,391,012</u></u>	<u><u>\$ 3,017,838</u></u>	<u><u>\$ 5,000,000</u></u>	<u><u>\$ 64,408,850</u></u>

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

### Statement of Cash Flows For the Year Ended June 30, 2016

---

<b>Cash Flows from Operating Activities:</b>	
Changes in net assets	\$ (383,767)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	1,136,765
Net realized and unrealized losses on investments	839,995
Bad debt	331,985
Changes in operating assets and liabilities:	
Patient services receivable	(286,891)
Contract, grant and other receivables	222,057
Inventory	(38,768)
Prepaid expenses, deposits and other	451,885
Accounts payable	10,627
Accrued expenses	407,647
	<hr/>
Net cash provided by operating activities	2,691,535
	<hr/>
<b>Cash Flows from Investing Activities:</b>	
Acquisition of property and equipment	(1,541,994)
Purchase of investments and reinvested investment return	(21,798,774)
Proceeds from sale of investments	21,086,546
	<hr/>
Net cash used in investing activities	(2,254,222)
	<hr/>
<b>Net Change in Cash</b>	437,313
<b>Cash:</b>	
Beginning of year	<hr/>
	6,846,266
End of year	<hr/>
	\$ 7,283,579
	<hr/>
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Unrealized loss on investments	<hr/>
	\$ (3,413,569)
	<hr/>

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Statement of Functional Expenses  
For the Year Ended June 30, 2016

	McInnis Medical Respite	Adult Outreach	Boston Medical Center Clinic	Family Team	Mental Health	Dental Services	The Institute	Pharmacy	Develop- ment	General and Adminis- trative	Total
<b>Personnel and Related:</b>											
Salaries	\$ 9,188,106	\$ 6,513,877	\$ 3,005,384	\$ 898,147	\$ 1,990,178	\$ 921,886	\$ 111,733	\$ -	\$ 538,171	\$ 3,606,695	\$ 26,774,177
Fringe benefits	1,218,494	941,454	398,049	153,228	245,890	153,452	16,327	-	78,869	692,776	3,898,539
Payroll taxes	724,862	504,939	232,687	70,928	152,280	68,711	8,839	-	42,753	372,810	2,178,809
Contracted services	-	366,516	-	21,125	104,318	-	75,156	1,524,651	-	2,880	2,094,646
Malpractice insurance	-	-	-	-	-	-	-	-	-	92,343	92,343
Total personnel and related	11,131,462	8,326,786	3,636,120	1,143,428	2,492,666	1,144,049	212,055	1,524,651	659,793	4,767,504	35,038,514
<b>Occupancy:</b>											
Contracted services - security	454,069	708	186,566	-	-	-	-	-	-	-	641,343
Utilities	370,371	275	22,747	2,339	1,880	6,742	1,513	2,797	2,844	50,865	462,373
Building maintenance and repairs	181,121	5,486	35,762	3,867	3,033	11,014	2,445	3,328	4,866	89,723	340,645
Facilities rent	2,833	-	-	-	-	-	-	-	-	98,984	101,817
Total occupancy	1,008,394	6,469	245,075	6,206	4,913	17,756	3,958	6,125	7,710	239,572	1,546,178
<b>Other:</b>											
Pharmacy supplies	32,424	-	-	75	-	-	-	9,325,117	-	1,704	9,359,320
Purchased services	215,852	846,124	14,248	5,814	109,599	186,955	404	1,513	187,540	262,832	1,830,881
Equipment rental and maintenance	372,461	65,648	30,998	5,859	6,160	11,600	1,077	1,466	8,821	618,705	1,122,795
Medical supplies	237,199	141,505	85,626	16,547	33,073	97,786	-	20,264	-	56,940	688,940
Miscellaneous	23,245	18,097	8,946	7,749	15,886	4,982	2,027	47,112	74,852	448,427	651,323
Patient food and supplies	382,197	35,906	5,663	5,502	3,190	-	54	-	4,536	9,161	446,209
Staff conferences and travel	26,474	95,525	13,202	11,651	12,062	4,352	795	-	14,769	199,912	378,742
Bad debt	54,257	44,550	18,093	4,217	43,212	110,005	-	57,651	-	-	331,985
Office supplies	45,191	32,479	24,684	3,261	5,030	1,653	589	776	12,803	192,783	319,249
Patient transportation	62,085	81,688	18,423	43,104	2,856	740	-	27	200	2,831	211,954
Professional fees	-	-	-	-	-	-	-	-	-	202,953	202,953
Communication costs	28,024	47,471	11,027	13,286	7,259	1,237	1,723	464	519	90,404	201,414
Insurance	84,084	-	-	-	-	-	-	-	-	71,528	155,612
Total other	1,563,493	1,408,993	230,910	117,065	238,327	419,310	6,669	9,454,390	304,040	2,158,180	15,901,377
Total expenses before depreciation and general and administrative allocation	13,703,349	9,742,248	4,112,105	1,266,699	2,735,906	1,581,115	222,682	10,985,166	971,543	7,165,256	52,486,069
<b>Depreciation</b>	556,367	12,091	115,127	12,162	9,636	53,930	7,765	12,141	14,688	342,858	1,136,765
Total expenses before general and administrative allocation	14,259,716	9,754,339	4,227,232	1,278,861	2,745,542	1,635,045	230,447	10,997,307	986,231	7,508,114	53,622,834
<b>General and Administrative Allocation</b>	2,321,679	1,588,141	688,252	208,216	447,012	266,208	37,520	1,790,514	160,572	(7,508,114)	-
Total expenses	\$ 16,581,395	\$ 11,342,480	\$ 4,915,484	\$ 1,487,077	\$ 3,192,554	\$ 1,901,253	\$ 267,967	\$ 12,787,821	\$ 1,146,803	\$ -	\$ 53,622,834

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 1. OPERATIONS AND NONPROFIT STATUS

The Boston Health Care for the Homeless Program, Inc. (the Agency) provides primary and episodic care utilizing multidisciplinary teams of MDs, NPs, PAs, RNs, behavioral health professionals and case managers/community support workers. In addition, the Agency provides dental care and medical respite services to homeless persons in the Greater Boston, Massachusetts area.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### Estimates

The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Expense Allocations

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

#### 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 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 financial statements at June 30, 2016. The Agency's information returns are subject to examination by Federal and state jurisdictions.

#### Patient Services Receivable & Allowance for Doubtful Accounts

Patient services receivable is recorded net of contractual allowances (see page 9) and an allowance for doubtful accounts. Management estimates the allowance for doubtful accounts based on its analysis of specific accounts and payors. Accounts are written off when they are determined to be uncollectible.

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Contract, Grant and Other Receivables

The Agency carries its contract, grant and other receivables at net realizable value. Contract, grant and other receivables are expected to be collected in the subsequent year. The Agency evaluates its receivables and establishes an allowance for doubtful accounts based on collections experience and current audit conditions. During the years ended June 30, 2016 and 2015, there was no allowance recorded as all receivables were deemed to be collectable.

#### Inventory

Inventory consists of medicine and medical supplies from an in-house pharmacy. This inventory is accounted for at the lower of cost (as determined by the first-in, first-out method) or market.

#### Property and Equipment and Depreciation

Property and equipment with estimated useful lives in excess of one year and values greater than \$5,000 are capitalized at cost. Donated property 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.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and leasehold improvements	20 - 39 years
Equipment and furnishings	3 - 7 years
Vehicles	5 years

The Agency accounts for the carrying value of their long-lived assets in accordance with the U.S. GAAP requirements for ASC Topic, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As of June 30, 2016, the Agency has not recognized any reduction in the carrying value of their property and equipment when considering this requirement.

#### Investments

Investments consist of the Agency's holdings of marketable securities held for purposes of financial returns. The Agency records investments at fair value (see page 9). Investment income is recorded as earned. Realized gains and losses on investment transactions are recorded based on the average cost method. Unrealized gains and losses are recognized based on market value changes during the period. Investment income of unrestricted investment funds is available for operations and is therefore reflected in unrestricted net assets. Investment income on permanently restricted net assets is restricted for the Agency's facilities and is therefore reflected in temporarily restricted net assets (see page 11).

#### Fair Value Measurements

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

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair Value Measurements (Continued)

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 at the measurement date.

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

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

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. All qualifying assets and liabilities are valued using Level 1 inputs.

#### Revenue Recognition

Contract revenue is recorded over the contract period as services are provided and costs are incurred. Unrestricted grants and contributions are recorded as unrestricted revenue and net assets upon receipt or when unconditionally committed by the donor. Donor restricted grants and contributions that are donations with time or purpose restrictions are recognized as temporarily restricted revenues and net assets when received or when unconditionally committed by the donor. Temporarily restricted grants and contributions are transferred to unrestricted support and revenues and unrestricted net assets as services are performed and costs are incurred, or pro-rata over the period covered by the grant or contribution as time restrictions lapse.

Gross patient service revenue is recorded at the full value of those services as assigned by the Agency. Net patient service revenue reflects the provision for contractual allowances and free care. Contractual allowances are accrued in the period the related services are rendered. Net patient service revenue is adjusted as required based on final settlements. Contractual allowances for the year ended June 30, 2016, aggregated approximately \$37,828,000, including contractual allowances related to free care of approximately \$3,863,000.

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition (Continued)

The Agency has a policy of providing free care services to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient prior to services being rendered. The Agency provided approximately \$3,863,000 of free care during the year ended June 30, 2016. The cost of providing these services was approximately \$2,434,000 for the year ended June 30, 2016. The cost of providing free care was calculated by dividing the total cost (including general and administrative allocation) of providing patient services by gross patient charges and multiplying the percentage by gross free care charges. The Agency adjudicates claims for these services; therefore, charges for free care have been included in net patient service revenue in the accompanying statement of activities. The Agency received partial reimbursement from third-party payors for free care services of approximately \$986,000 during the year ended June 30, 2016.

#### Donated Goods and Services

The Agency records donated goods and services based on the estimated value assigned to them by the donors or by management. For the year ended June 30, 2016, the Agency received donated goods and services of \$86,114. This consisted of donated services related to the production of videos for the annual gala, donated food from the Boston Food Bank and donated alcohol for the gala. The fair value of these donated goods and services are included in interest income and other and in related expenses on the accompanying statement of activities and functional expenses for the year ended June 30, 2016.

#### Net Assets

**Unrestricted net assets** are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets into the following categories:

**Operating** represents funds available to carry on the operations of the Agency.

**Board designated - investments** represent funds designated by the Board of Directors for long-term investments and growth. Income earned on this fund is reinvested in the fund. Use of this fund and its income can only be made with the approval of the Board of Directors.

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

**Temporarily restricted net assets** represent contributions received or pledged that have not yet been expended for their designated purpose. Temporarily restricted net assets also include accumulated appreciation and investment earnings on permanently restricted net assets (see page 11).

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Net Assets (Continued)

Temporarily restricted net assets are available for donor-specified program activities and for capital improvements and equipment and are as follows:

<u>2016</u>	<u>Balance at June 30, 2015</u>	<u>Donor Restricted Income</u>	<u>Released From Restrictions</u>	<u>Balance at June 30, 2016</u>
Net appreciation on				
Facilities Endowment	\$ 2,288,306	\$ (7,275)	\$ 378,000	\$ 1,903,031
Outreach	486,217	521,961	434,381	573,797
Other	115,897	32,696	90,358	58,235
Respite homes program	52,221	244,883	108,508	188,596
Development	18,943	600,409	367,950	251,402
Dental clinic	16,380	46,000	24,721	37,659
Walnut Ave. build out/operations	500,000	232,500	727,500	5,000
Pastoral service	<u>118</u>	<u>-</u>	<u>-</u>	<u>118</u>
	<u>\$ 3,478,082</u>	<u>\$ 1,671,174</u>	<u>\$ 2,131,418</u>	<u>\$ 3,017,838</u>

**Permanently restricted net assets** - The Agency's capital campaign, which ended in February 2009, included funds to establish a \$5 million endowment for facilities (the Facilities Endowment). Earnings from the Facilities Endowment are to be used to support the operations and maintenance costs of the Agency's facilities, including future facilities.

#### Subsequent Events

Subsequent events have been evaluated through October 11, 2016, which is the date the financial statements were available to be issued. Except for the events described in Notes 5 and 14 there were no other events that met the criteria for recognition or disclosure in the financial statements.

#### Statement of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as support and revenue and operating expenses on the accompanying statement of activities. Peripheral or incidental transactions are reported as non-operating revenue (expense). Non-operating revenue (expense), consistent with industry practice, includes research non-operating costs, capital and investment activity.

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 3. STACY KIRKPATRICK HOUSE

The Agency owned the Stacy Kirkpatrick House (SKH), formerly the Barbara M. McInnis House at 461 Walnut Avenue which, until July 2008, was used to house a Medical Recuperative Unit (MRU) for homeless individuals. This facility had ninety beds. In October 2014, the Agency sold the SKH to Jamaica Plain Neighborhood Development Corporation (JPND), a not-for-profit organization for \$1,600,000. In fiscal year 2016, JPND developed SKH into permanent affordable housing to serve individuals who are medically vulnerable and chronically homeless. The Agency and JPND have entered into a ninety-nine year lease to lease the first floor to the Agency. Annual rent will be \$1, plus the Agency's proportionate share of certain operating expenses. The Agency is responsible for renovations and leasehold improvements to the first floor. The Agency will use the space to provide respite services for homeless people. The leasehold improvements to SKH were completed and placed into service in June 2016 and are included in property and equipment, net in the accompanying statement of financial position.

### 4. RELATED PARTY TRANSACTIONS

The Agency entered into the following transactions with its related parties:

- A member of the Agency's Investment Committee and a Board member (formerly a member of the Investment Committee and Board as the individual retired in 2016) was a principal at the investment company that provided investment consulting services to the Agency. The investment company was chosen through a competitive bid process. During fiscal year 2016, the investment company billed the Agency approximately \$92,000, for consulting services. This amount is netted against investment income (see Note 8). During fiscal year 2016, the Agency contracted with a new investment company for investment services.
- Two board members of the Agency are executives of the company that the Agency hired as their health insurance provider in fiscal year 2016. This health insurance provider was chosen through a competitive bid process. Also, the wife of one of these board members is a partner at a law firm the Agency uses for legal counsel. The Agency performed a competitive bid process from five legal firms.

### 5. ENDOWMENT FUNDS

Massachusetts follows the Uniform Prudent Management of Institutional Funds Acts (UPMIFA). The Agency has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the Facilities Endowment, (b) the original value of subsequent gifts to the Facilities Endowment, and (c) accumulations to the Facilities Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any accumulated appreciation and unspent investment return related to the donor-restricted endowment fund, if any, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by UPMIFA.

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 5. ENDOWMENT FUNDS (Continued)

In accordance with UPMIFA, the Agency will consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Agency and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Agency.
- (7) The investment policies of the Agency.

The Agency has adopted an investment spending policy for the Facilities Endowment. Under the policy, annual withdrawals of investment earnings and endowment appreciation will not be more than 5% of the average market value of the Facilities Endowment (see page 11) over a rolling thirty-six month period. During fiscal year 2016, the Agency appropriated \$378,000 of total investment return for operations based on this calculation. Transfers to the operating net assets, in accordance with the spending policy, are reflected as investment return (facilities endowment) appropriated for operations in the accompanying statement of activities for the year ended June 30, 2016.

Subsequent to June 30, 2016 the Agency revised the spending policy from 5% to 4% of the average market value of the Facilities Endowment over a rolling thirty-six month period.

Changes in endowment net assets by class are as follows for the year ended June 30, 2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2015	\$ 2,288,306	\$ 5,000,000	\$ 7,288,306
Investment returns:			
Realized gain	1,154,138	-	1,154,138
Net unrealized loss on investments	(1,309,900)	-	(1,309,900)
Interest and dividends, net of fees	<u>148,487</u>	<u>-</u>	<u>148,487</u>
Total investment returns	<u>(7,275)</u>	<u>-</u>	<u>(7,275)</u>
Investment return designated for operations	<u>(378,000)</u>	<u>-</u>	<u>(378,000)</u>
Endowment net assets, June 30, 2016	<u>\$ 1,903,031</u>	<u>\$ 5,000,000</u>	<u>\$ 6,903,031</u>

The Agency has adopted investment and spending policies for endowment assets that aim to safeguard the purchasing power of the endowment principal, generate an ongoing revenue source and to provide for growth of the investment principal. The investments are to be split between equity and fixed income investments to accomplish these goals. Under this policy, the endowment assets are invested to provide a competitive total rate of return commensurate with prudent diversification and moderate risk. Risk and diversification parameters have been established and the endowment is maintained and rebalanced, if necessary, according to the Agency's investment policy. The Agency relies on a total rate of return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). While it is understood that the endowment assets are to be managed with a long-term focus, the Agency routinely monitors current and historical investment performance against applicable benchmarks.

**THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.**

Notes to Financial Statements  
June 30, 2016

**6. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30, 2016:

Buildings and leasehold improvements	\$ 30,033,002
Equipment and furnishings	2,775,328
Vehicles	<u>86,562</u>
	32,894,892
Less - accumulated depreciation	<u>4,086,286</u>
	<u>\$ 28,808,606</u>

Depreciation expense was \$1,136,765 for the year ended June 30, 2016.

**7. CONTINGENCIES AND COMMITMENTS**

The Agency, from time-to-time, is the defendant in lawsuits. It is management's belief that the Agency will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying financial statements for any potential liability resulting from these lawsuits.

**8. INVESTMENTS**

The Agency reflects investments at fair market value using Level 1 inputs (see Note 2). Investments are comprised of the following as of June 30, 2016:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Government money market	\$ 4,983,333	\$ 4,983,333	\$ -
Fixed income	4,834,477	4,845,340	10,863
Mutual funds	560,000	544,911	(15,089)
Other assets	229,609	239,564	9,955
Equities:			
Financial	2,556,612	2,373,316	(183,296)
Consumer	3,763,446	3,834,965	71,519
Transportation	713,830	840,686	126,856
Technology	2,140,215	2,334,664	194,449
Health	2,632,681	3,167,486	534,805
Service	1,882,681	1,862,654	(20,027)
Other	<u>1,852,397</u>	<u>1,854,741</u>	<u>2,344</u>
	<u>\$ 26,149,281</u>	<u>\$ 26,881,660</u>	732,379
Unrealized appreciation as of June 30, 2015			<u>4,145,948</u>
Net unrealized losses for the year ended June 30, 2016			<u>\$ (3,413,569)</u>

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 8. INVESTMENTS (Continued)

Investments are not insured and are subject to ongoing market fluctuations. Investments are held for long-term purposes and, accordingly, are classified as non-current assets in the accompanying statement of financial position.

Investment return consists of the following for the year ended June 30, 2016:

Net realized gains	\$ 2,573,574
Interest and dividends	146,251
Investment fees	(106,847)
Net unrealized losses	<u>(3,413,569)</u>
	<u>\$ (800,591)</u>

### 9. CONCENTRATION OF CREDIT RISK

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

### 10. FUNDING

#### Patient Service Revenue

Approximately 55% of net patient service revenue was from the Commonwealth of Massachusetts, Office of Health and Human Services, the MassHealth program (Medicaid) for the year ended June 30, 2016. Charges made to most third-party payors for patient services are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the effect of such cost determinations or adjustments, if any, will not have a material effect on the financial position of the Agency as of June 30, 2016, or on the changes in their net assets for the year then ended.

Approximately 38% of patient services receivable in the accompanying statement of financial position are due from Medicaid as of June 30, 2016. Approximately 21% of patient services receivable in the accompanying statement of financial position are due from the Massachusetts Executive Office of Health and Human Services Health Safety Net program as of June 30, 2016.

#### Contracts

Approximately 63% of the Agency's contract revenue is for services provided under agreements with the Health Resources and Services Administration (HRSA), a department of the U.S. Department of Health and Human Services, for the year ended June 30, 2016. As of June 30, 2016, approximately 29% of contract, grant, and other receivables in the accompanying statement of financial position was due from HRSA. These contracts are subject to possible audits by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Agency as of June 30, 2016, or on its changes in net assets for the year then ended.

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 10. FUNDING (Continued)

#### PCPRI

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 was 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 Agency based upon savings on non-primary care spending by MassHealth, including hospitalizations and specialty services.

During fiscal years 2016, the Agency received CPCP payments of approximately \$2,241,000, which are included in net patient service revenue in the accompanying statement of activities for the year ended June 30, 2016. The Agency 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 is not owed a Hold Harmless settlement at June 30, 2016.

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 one, 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 2016 cannot be determined as of June 30, 2016, there have been no settlements recorded in the accompanying 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 and accrued for a potential settlement owed to MassHealth as of June 30, 2016, based on their analysis.

## THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements  
June 30, 2016

---

### 11. RETIREMENT PLANS

The Agency maintains a profit sharing plan for employees who complete one year of employment and have worked at least 1,000 hours in twelve consecutive months. The Agency may make annual contributions as approved by the Board of Directors. Contributions vest over five years. Contributions made for the year ended June 30, 2016 was \$1,068,623, and are included in fringe benefits in the accompanying statement of functional expenses.

The Agency also maintains a tax sheltered annuity plan under Section 403(b) of the IRC. Employees can make voluntary contributions to the plan through salary reductions. The Agency does not contribute to this plan.

### 12. LEASE AGREEMENT

In August 2015, the Agency entered into an agreement to lease office space for its administrative office. The lease agreement expires in June 2022. Monthly payments on this lease are \$9,008 and escalate annually based on the terms of the lease agreement.

Future minimum lease payments under this agreement is as follows:

<u>Fiscal Year</u>	
2017	\$ 111,957
2018	\$ 114,756
2019	\$ 117,624
2020	\$ 120,565
2021 - 2022	\$ 196,708

### 13. 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. The Agency also has insurance for any gaps in its professional liability coverage.

### 14. SUBSEQUENT EVENT

Subsequent to June 30, 2016 the Agency entered into two loan agreements with Boston Medical Center for a total of \$2,816,000 in connection with the implementation and launch of a new third party billing platform. The debt obligation is to be forgiven over the course of ten years provided the Agency remains in compliance with the terms of the loan agreements.