



**FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Contents
June 30, 2017 and 2016

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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 statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2017 and 2016, and the 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.

Alexander, Brown, Penning & Co., P.C.
Boston, Massachusetts
October 10, 2017

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Statements of Financial Position
June 30, 2017 and 2016

Assets	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:								
Cash	\$ 4,747,624	\$ 2,050,387	\$ -	\$ 6,798,011	\$ 6,168,772	\$ 1,114,807	\$ -	\$ 7,283,579
Patient services receivable, net of allowance for doubtful accounts of \$725,350 and \$520,523 as of June 30, 2017 and 2016, respectively	4,342,035	-	-	4,342,035	5,166,264	-	-	5,166,264
Contract, grant and other receivables	1,306,691	-	-	1,306,691	1,097,826	-	-	1,097,826
Pledges receivable	131,552	-	-	131,552	43,612	-	-	43,612
Inventory	441,272	-	-	441,272	422,544	-	-	422,544
Prepaid expenses and deposits	436,914	-	-	436,914	188,625	-	-	188,625
Total current assets	11,406,088	2,050,387	-	13,456,475	13,087,643	1,114,807	-	14,202,450
Investments	22,104,040	2,583,769	5,000,000	29,687,809	19,978,629	1,903,031	5,000,000	26,881,660
Property and Equipment, net	30,580,643	-	-	30,580,643	28,808,606	-	-	28,808,606
Total assets	\$ 64,090,771	\$ 4,634,156	\$ 5,000,000	\$ 73,724,927	\$ 61,874,878	\$ 3,017,838	\$ 5,000,000	\$ 69,892,716
Liabilities and Net Assets								
Current Liabilities:								
Accounts payable	\$ 965,420	\$ -	\$ -	\$ 965,420	\$ 1,337,686	\$ -	\$ -	\$ 1,337,686
Accrued expenses	3,573,257	-	-	3,573,257	4,146,180	-	-	4,146,180
Total current liabilities	4,538,677	-	-	4,538,677	5,483,866	-	-	5,483,866
Contngent Note Payable	2,156,999	-	-	2,156,999	-	-	-	-
Total liabilities	6,695,676	-	-	6,695,676	5,483,866	-	-	5,483,866
Net Assets:								
Operating	6,867,411	-	-	6,867,411	7,603,777	-	-	7,603,777
Board designated - investments	22,104,040	-	-	22,104,040	19,978,629	-	-	19,978,629
Facilities endowment	-	2,583,769	5,000,000	7,583,769	-	1,903,031	5,000,000	6,903,031
Property and equipment	28,423,644	-	-	28,423,644	28,808,606	-	-	28,808,606
Temporarily restricted - program activity	-	2,050,387	-	2,050,387	-	1,114,807	-	1,114,807
Total net assets	57,395,095	4,634,156	5,000,000	67,029,251	56,391,012	3,017,838	5,000,000	64,408,850
Total liabilities and net assets	\$ 64,090,771	\$ 4,634,156	\$ 5,000,000	\$ 73,724,927	\$ 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.

Statements of Activities

For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues:								
Net patient service revenue	\$ 38,498,477	\$ -	\$ -	\$ 38,498,477	\$ 41,306,074	\$ -	\$ -	\$ 41,306,074
Grants and contributions	5,273,268	2,609,384	-	7,882,652	3,742,422	1,528,449	-	5,270,871
Contract revenue	6,044,587	-	-	6,044,587	6,616,170	-	-	6,616,170
Investment return appropriated for operations	981,000	-	-	981,000	378,000	-	-	378,000
Interest income and other	158,275	-	-	158,275	710,614	-	-	710,614
Net assets released from program restrictions	1,671,352	(1,671,352)	-	-	1,246,463	(1,246,463)	-	-
Total support and revenues	52,626,959	938,032	-	53,564,991	53,999,743	281,986	-	54,281,729
Operating Expenses:								
McInnis Medical Respite	19,634,279	-	-	19,634,279	16,581,395	-	-	16,581,395
Adult Outreach	10,079,661	-	-	10,079,661	11,342,480	-	-	11,342,480
Boston Medical Center Clinic	5,131,643	-	-	5,131,643	4,915,484	-	-	4,915,484
Family Team	1,131,428	-	-	1,131,428	1,487,077	-	-	1,487,077
Mental Health	3,417,536	-	-	3,417,536	3,192,554	-	-	3,192,554
Dental Services	1,806,076	-	-	1,806,076	1,901,253	-	-	1,901,253
The Institute	299,168	-	-	299,168	267,967	-	-	267,967
Pharmacy	10,606,755	-	-	10,606,755	12,787,821	-	-	12,787,821
Development	1,378,252	-	-	1,378,252	1,146,803	-	-	1,146,803
Total operating expenses	53,484,798	-	-	53,484,798	53,622,834	-	-	53,622,834
Changes in net assets from operations	(857,839)	938,032	-	80,193	376,909	281,986	-	658,895
Non-Operating Revenues (Expenses):								
Investment return, net of investment fees	2,647,489	907,238	-	3,554,727	(793,316)	(7,275)	-	(800,591)
Capital grant	-	24,000	-	24,000	-	150,000	-	150,000
Net assets released from capital restrictions	26,452	(26,452)	-	-	506,955	(506,955)	-	-
Research non-operating costs	(57,519)	-	-	(57,519)	(14,071)	-	-	(14,071)
Investment return appropriated for operations	(754,500)	(226,500)	-	(981,000)	-	(378,000)	-	(378,000)
Total non-operating revenues (expenses)	1,861,922	678,286	-	2,540,208	(300,432)	(742,230)	-	(1,042,662)
Changes in net assets	\$ 1,004,083	\$ 1,616,318	\$ -	\$ 2,620,401	\$ 76,477	\$ (460,244)	\$ -	\$ (383,767)

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Statements of Changes in Net Assets
For the Years Ended June 30, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, June 30, 2015	\$ 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>
Net Assets, June 30, 2016	56,391,012	3,017,838	5,000,000	64,408,850
Changes in net assets	<u>1,004,083</u>	<u>1,616,318</u>	<u>-</u>	<u>2,620,401</u>
Net Assets, June 30, 2017	<u>\$ 57,395,095</u>	<u>\$ 4,634,156</u>	<u>\$ 5,000,000</u>	<u>\$ 67,029,251</u>

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 2,620,401	\$ (383,767)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,278,047	1,136,765
Net realized and unrealized (gains) losses on investments	(3,438,562)	839,995
Bad debt	171,636	331,985
Forgiveness of debt	(174,892)	-
Changes in operating assets and liabilities:		
Patient services receivable	652,593	(286,891)
Contract, grant and other receivables	(208,865)	222,057
Pledges receivable	(87,940)	205,388
Inventory	(18,728)	(38,768)
Prepaid expenses and deposits	(248,289)	246,497
Accounts payable	(461,868)	10,627
Accrued expenses	(572,923)	407,647
Net cash provided by (used in) operating activities	<u>(489,390)</u>	<u>2,691,535</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(628,591)	(1,541,994)
Purchase of investments and reinvested investment return	(8,368,992)	(21,798,774)
Proceeds from sale of investments	9,001,405	21,086,546
Net cash provided by (used in) investing activities	<u>3,822</u>	<u>(2,254,222)</u>
Net Change in Cash	(485,568)	437,313
Cash:		
Beginning of year	<u>7,283,579</u>	<u>6,846,266</u>
End of year	<u>\$ 6,798,011</u>	<u>\$ 7,283,579</u>
Supplemental Disclosure of Cash Flow Information:		
Property and equipment financed through contingent debt	<u>\$ 2,331,891</u>	<u>\$ -</u>
Unrealized gain (loss) on investments	<u>\$ 2,167,117</u>	<u>\$ (3,413,569)</u>
Property and equipment acquisitions included in accounts payable	<u>\$ 89,602</u>	<u>\$ -</u>

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Statement of Functional Expenses
 For the Year Ended June 30, 2017
 (With Summarized Comparative Totals for the Year Ended June 30, 2016)

	2017										2016	
	McInnis Medical Respite	Adult Outreach	Boston Medical Center Clinic	Family Team	Mental Health	Dental Services	The Institute	Pharmacy	Development	General and Adminis- trative	Total	Total
Personnel and Related:												
Salaries	\$ 10,825,542	\$ 5,893,403	\$ 3,072,743	\$ 672,173	\$ 2,157,448	\$ 945,782	\$ 115,694	\$ -	\$ 516,329	\$ 4,058,315	\$ 28,257,429	\$ 26,774,177
Fringe benefits	1,522,153	904,204	456,678	99,947	288,737	176,392	23,395	-	56,642	676,480	4,204,628	3,898,539
Payroll taxes	900,266	463,792	237,395	53,388	162,348	70,501	9,302	-	41,869	434,877	2,373,738	2,178,809
Contracted services	-	388,622	-	-	69,886	-	77,597	1,523,615	-	13,728	2,073,448	2,094,646
Malpractice insurance	-	-	-	-	-	-	-	-	-	104,582	104,582	92,343
Total personnel and related	13,247,961	7,650,021	3,766,816	825,508	2,678,419	1,192,675	225,988	1,523,615	614,840	5,287,982	37,013,825	35,038,514
Occupancy:												
Contracted services - security	581,356	1,445	167,566	-	-	-	-	-	520	1,120	752,007	641,343
Utilities	436,565	305	25,217	2,592	2,085	7,474	1,678	3,101	3,152	66,048	548,217	462,373
Building maintenance and repairs	284,002	6,537	37,115	4,169	4,349	10,197	2,119	2,884	38,229	96,645	486,246	340,645
Facilities rent	3,205	-	-	1,104	-	-	-	-	-	128,868	133,177	101,817
Total occupancy	1,305,128	8,287	229,898	7,865	6,434	17,671	3,797	5,985	41,901	292,681	1,919,647	1,546,178
Other:												
Pharmacy supplies	20,276	49	-	-	-	-	-	7,207,665	-	-	7,227,990	9,359,320
Purchased services	229,665	402,874	11,525	26,583	100,602	144,712	386	514	337,535	461,150	1,715,546	1,830,881
Equipment rental and maintenance	118,259	37,580	40,341	12,448	28,559	9,534	1,365	769	6,823	658,433	914,111	1,122,795
Miscellaneous	25,573	11,839	7,388	7,132	8,351	4,063	7,601	139,977	130,334	332,869	675,127	651,323
Medical supplies	238,362	100,197	67,390	5,320	131	81,004	164	5,400	-	64,259	562,227	688,940
Patient food and supplies	418,614	77,557	23,313	11,019	9,870	-	-	-	2,837	2,637	545,847	446,209
Staff conferences and travel	16,626	61,809	16,213	16,203	21,093	7,080	2,152	-	8,259	219,163	368,598	378,742
Communication costs	52,504	40,615	15,345	14,657	8,075	2,484	2,749	751	1,043	128,198	266,421	201,414
Patient transportation	132,795	82,438	22,784	13,920	7,435	998	-	-	35	551	260,956	211,954
Professional fees	-	-	-	-	-	-	-	5,063	-	191,343	196,406	202,953
Office supplies	44,948	32,351	9,865	1,954	5,075	1,670	801	1,271	7,314	89,211	194,460	319,249
Insurance	90,252	-	-	-	-	-	-	-	317	83,385	173,954	155,612
Bad debt	23,926	20,608	11,334	2,347	9,196	26,086	-	78,139	-	-	171,636	331,985
Total other	1,411,800	867,917	225,498	111,583	198,387	277,631	15,218	7,439,549	494,497	2,231,199	13,273,279	15,901,377
Total expenses before depreciation and general and administrative allocation	15,964,889	8,526,225	4,222,212	944,956	2,883,240	1,487,977	245,003	8,969,149	1,151,238	7,811,862	52,206,751	52,486,069
Depreciation	658,903	7,941	122,606	12,992	10,292	41,177	8,294	11,292	15,689	388,861	1,278,047	1,136,765
Total expenses before general and administrative allocation	16,623,792	8,534,166	4,344,818	957,948	2,893,532	1,529,154	253,297	8,980,441	1,166,927	8,200,723	53,484,798	53,622,834
General and Administrative Allocation	3,010,487	1,545,495	786,825	173,480	524,004	276,922	45,871	1,626,314	211,325	(8,200,723)	-	-
Total expenses	\$ 19,634,279	\$ 10,079,661	\$ 5,131,643	\$ 1,131,428	\$ 3,417,536	\$ 1,806,076	\$ 299,168	\$ 10,606,755	\$ 1,378,252	\$ -	\$ 53,484,798	\$ 53,622,834

The accompanying notes are an integral part of these statements.

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	Development	General and Adminis- trative	Total
Personnel and Related:											
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	<u>11,131,462</u>	<u>8,326,786</u>	<u>3,636,120</u>	<u>1,143,428</u>	<u>2,492,666</u>	<u>1,144,049</u>	<u>212,055</u>	<u>1,524,651</u>	<u>659,793</u>	<u>4,767,504</u>	<u>35,038,514</u>
Occupancy:											
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	<u>1,008,394</u>	<u>6,469</u>	<u>245,075</u>	<u>6,206</u>	<u>4,913</u>	<u>17,756</u>	<u>3,958</u>	<u>6,125</u>	<u>7,710</u>	<u>239,572</u>	<u>1,546,178</u>
Other:											
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
Miscellaneous	23,245	18,097	8,946	7,749	15,886	4,982	2,027	47,112	74,852	448,427	651,323
Medical supplies	237,199	141,505	85,626	16,547	33,073	97,786	-	20,264	-	56,940	688,940
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
Communication costs	28,024	47,471	11,027	13,286	7,259	1,237	1,723	464	519	90,404	201,414
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
Office supplies	45,191	32,479	24,684	3,261	5,030	1,653	589	776	12,803	192,783	319,249
Insurance	84,084	-	-	-	-	-	-	-	-	71,528	155,612
Bad debt	54,257	44,550	18,093	4,217	43,212	110,005	-	57,651	-	-	331,985
Total other	<u>1,563,493</u>	<u>1,408,993</u>	<u>230,910</u>	<u>117,065</u>	<u>238,327</u>	<u>419,310</u>	<u>6,669</u>	<u>9,454,390</u>	<u>304,040</u>	<u>2,158,180</u>	<u>15,901,377</u>
Total expenses before depreciation and general and administrative allocation	<u>13,703,349</u>	<u>9,742,248</u>	<u>4,112,105</u>	<u>1,266,699</u>	<u>2,735,906</u>	<u>1,581,115</u>	<u>222,682</u>	<u>10,985,166</u>	<u>971,543</u>	<u>7,165,256</u>	<u>52,486,069</u>
Depreciation	<u>556,367</u>	<u>12,091</u>	<u>115,127</u>	<u>12,162</u>	<u>9,636</u>	<u>53,930</u>	<u>7,765</u>	<u>12,141</u>	<u>14,688</u>	<u>342,858</u>	<u>1,136,765</u>
Total expenses before general and administrative allocation	<u>14,259,716</u>	<u>9,754,339</u>	<u>4,227,232</u>	<u>1,278,861</u>	<u>2,745,542</u>	<u>1,635,045</u>	<u>230,447</u>	<u>10,997,307</u>	<u>986,231</u>	<u>7,508,114</u>	<u>53,622,834</u>
General and Administrative Allocation	<u>2,321,679</u>	<u>1,588,141</u>	<u>688,252</u>	<u>208,216</u>	<u>447,012</u>	<u>266,208</u>	<u>37,520</u>	<u>1,790,514</u>	<u>160,572</u>	<u>(7,508,114)</u>	<u>-</u>
Total expenses	<u>\$ 16,581,395</u>	<u>\$ 11,342,480</u>	<u>\$ 4,915,484</u>	<u>\$ 1,487,077</u>	<u>\$ 3,192,554</u>	<u>\$ 1,901,253</u>	<u>\$ 267,967</u>	<u>\$ 12,787,821</u>	<u>\$ 1,146,803</u>	<u>\$ -</u>	<u>\$ 53,622,834</u>

The accompanying notes are an integral part of these statements.

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS

The Boston Health Care for the Homeless Program, Inc. (the Agency) provides primary and episodic care, addiction, and mental health services 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 (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019. The Agency is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement activities and changes in net assets. This standard will be effective for the calendar year ending December 31, 2020. The Agency is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*, to improve financial reporting guidance for not-for-profit entities (NFPs). The new financial reporting guidance aims to address the issues in four main areas: (1) net asset classification, (2) liquidity and availability of resources, (3) expense and investment return, and (4) presentation of operating cash flow. This standard will be effective for the calendar year ending December 31, 2018. The Agency is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2017 and 2016. The Agency's information returns are subject to examination by Federal and state jurisdictions.

Patient Services Receivable and Allowance for Doubtful Accounts

Patient services receivable is recorded net of contractual allowances (see page 11) 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.

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, 2017 and 2016, there was no allowance recorded as all receivables were deemed to be collectable.

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable consist of unconditional contributions committed to the Agency. Pledges are recorded at their net present value when unconditionally committed. As of June 30, 2017 and 2016, all pledges were due within one year.

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 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
EPIC Software	10 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, 2017 and 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 11). 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 13).

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, 2017 and 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 agreed upon rates and final settlements. In general, the Agency is reimbursed from third-party payors based on negotiated rates, procedural fee schedules, and discounted charges. Contractual allowances were approximately \$50,849,000 and \$57,603,000 for the years ended June 30, 2017 and 2016, respectively.

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 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 or to those who may be underinsured. Such patients are identified based on financial information obtained from the patient prior to services being rendered. Since the Agency does not expect payment, estimated charges for free care are not included in net patient service revenue. The approximate cost of free care services provided was \$1,633,000 and \$2,434,000 for the years ended June 30, 2017 and 2016, respectively. 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. Massachusetts law provides coverage for healthcare services via Health Safety Net (HSN). The Agency billed HSN, or Free Care, approximately \$2,354,000 and \$3,863,000 during the years ended June 30, 2017 and 2016, respectively, for free care services provided to eligible patients. The Agency received partial reimbursement from third-party payors for free care services of approximately \$937,000 and \$986,000 during the years ended June 30, 2017 and 2016, respectively.

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 years ended June 30, 2017 and 2016, the Agency received donated goods and services of \$41,188 and \$86,114, respectively. This consisted of donated services related to the production of videos for the annual gala, donated design services, and donated alcohol for the gala. The fair value of these donated goods and services is included in interest income and other and in related expenses in the accompanying statements of activities and functional expenses for the years ended June 30, 2017 and 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. Beginning in fiscal year 2017, withdrawal from this fund is subject to the Agency's spending policy (see Note 4). Prior to fiscal year 2017, interest and dividend earned on this fund were used for operations and not reinvested in the fund.

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 13).

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily restricted net assets are available for donor-specified program activities, subject to the Agency's spending policy (see Note 4) and for capital improvements and equipment and are as follows:

<u>2017</u>	<u>Balance at June 30, 2016</u>	<u>Donor Restricted Income</u>	<u>Released From Restrictions</u>	<u>Balance at June 30, 2017</u>
Net appreciation on Facilities				
Endowment (see Note 4)	\$ 1,903,031	\$ 907,238	\$ 226,500	\$ 2,583,769
Outreach	558,429	1,885,963	829,307	1,615,085
Respite homes program	213,912	235,487	279,309	170,090
Other	74,322	346,934	286,217	135,039
Behavior Health	213,845	130,000	232,821	111,024
Dental clinic	37,659	35,000	53,510	19,149
Walnut Ave. build out/operations	<u>16,640</u>	<u>-</u>	<u>16,640</u>	<u>-</u>
	<u>\$ 3,017,838</u>	<u>\$ 3,540,622</u>	<u>\$ 1,924,304</u>	<u>\$ 4,634,156</u>
<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 (see Note 4)	\$ 2,288,306	\$ (7,275)	\$ 378,000	\$ 1,903,031
Outreach	427,799	825,524	694,894	558,429
Respite homes program	74,229	251,437	111,754	213,912
Other	46,763	57,450	29,891	74,322
Behavior Health	124,605	213,898	124,658	213,845
Dental clinic	16,380	46,000	24,721	37,659
Walnut Ave. build out/operations	<u>500,000</u>	<u>284,140</u>	<u>767,500</u>	<u>16,640</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 consist of a \$5 million endowment for facilities (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 10, 2017, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as support and revenues and operating expenses in the accompanying statements of activities. Peripheral or incidental transactions are reported as non-operating revenues (expenses). Non-operating revenues (expenses) include research non-operating costs, capital grant and investment activity.

3. 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. This 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 is netted against investment income in the accompanying 2016 statement of activities. During fiscal year 2016, the Agency, through a competitive bid process, contracted with a new investment company for investment services.
- One Board member of the Agency is an executive 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 and remains engaged through 2017. 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.

4. 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.

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 BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

4. ENDOWMENT FUNDS (Continued)

The Agency has adopted an investment spending policy for the Facilities Endowment. During fiscal year 2017, the policy was amended to incorporate the Board Designated – investment (see Note 2). Under the current policy, annual withdrawals of investment earnings and endowment appreciation will not be more than 4% of the average market value of the facilities endowment and the Board Designated investment (see Note 2) over a rolling thirty-six month period. During fiscal year 2016, the applicable rate was 5% of the Facilities Endowment. During fiscal years 2017 and 2016, the Agency appropriated \$981,000 and \$378,000, respectively, 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 appropriated for operations in the accompanying statements of activities for the years ended June 30, 2017 and 2016.

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

	<u>Board Designated</u>	<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	-	148,487	-	148,487
Total investment returns	-	(7,275)	-	(7,275)
Investment return designated for operations	-	(378,000)	-	(378,000)
Endowment net assets, June 30, 2016	-	1,903,031	5,000,000	6,903,031
Investment transfers	19,978,629	-	-	19,978,629
Donated securities	232,422	-	-	232,422
Investment returns:				
Realized gain	797,515	241,508	-	1,039,023
Net unrealized gain on investments	1,590,920	576,197	-	2,167,117
Interest and dividends, net of fees	259,054	89,533	-	348,587
Total investment returns	2,647,489	907,238	-	3,554,727
Investment return designated for operations	(754,500)	(226,500)	-	(981,000)
Endowment net assets, June 30, 2017	\$ 22,104,040	\$ 2,583,769	\$ 5,000,000	\$ 29,687,809

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

4. ENDOWMENT FUNDS (Continued)

Interest income from the Board Designated fund was used for operation (see page 12) is included in interest income and other on the accompanying statements of activities and changes in net assets for the year ended June 30, 2016.

During fiscal year 2017, the Agency received donated securities for operations which were later transferred to the Board Designated fund.

The Agency has adopted investment and spending policies for the endowment funds 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 funds 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 funds are 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 funds are to be managed with a long-term focus, the Agency routinely monitors current and historical investment performance against applicable benchmarks.

5. PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Buildings and leasehold improvements	\$ 30,743,885	\$ 30,033,002
EPIC Software	2,331,891	-
Equipment and furnishings	2,782,638	2,775,328
Vehicles	<u>86,562</u>	<u>86,562</u>
	35,944,976	32,894,892
Less - accumulated depreciation	<u>5,364,333</u>	<u>4,086,286</u>
	<u>\$ 30,580,643</u>	<u>\$ 28,808,606</u>

Depreciation expense was \$1,278,047 and \$1,136,765 for the years ended June 30, 2017 and 2016, respectively.

6. 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.

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

7. 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, 2017:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Government money market	\$ 602,999	\$ 602,999	\$ -
Fixed income	9,346,350	9,289,647	(56,703)
Mutual funds	560,000	751,532	191,532
Other assets	2,857,826	3,209,918	352,092
Equities:			
Financial	1,868,767	1,963,308	94,541
Consumer	2,959,942	3,638,340	678,398
Technology	2,754,391	3,639,826	885,435
Health	2,672,558	3,137,457	464,899
Industrials	2,300,738	2,573,332	272,594
Other	<u>864,742</u>	<u>881,450</u>	<u>16,708</u>
	<u>\$ 26,788,313</u>	<u>\$ 29,687,809</u>	2,899,496
Unrealized appreciation as of June 30, 2016			<u>732,379</u>
Net unrealized gains for the year ended June 30, 2017			<u>\$ 2,167,117</u>

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, 2017 and 2016

7. 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 statements of financial position.

Investment return consists of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Net unrealized gains (losses)	\$ 2,167,117	\$ (3,413,569)
Net realized gains	1,039,023	2,573,574
Interest and dividends	441,635	146,251
Investment fees	<u>(93,048)</u>	<u>(106,847)</u>
	<u>\$ 3,554,727</u>	<u>\$ (800,591)</u>

8. CONTINGENT NOTE PAYABLE

During fiscal year 2017, in connection with the acquisition and launch of the Agency's new practice management system software (the EPIC software), the Agency entered into a note payable for \$2,331,891 with Boston Medical Center (BMC). The note is unsecured and is to be forgiven over the course of ten years through October 1, 2026. The note bears interest at the prime rate (4.25% at June 30, 2017), plus 1%. Any accrued interest is forgiven each month. The accrued interest has not been recorded since the Agency was in compliance as of June 30, 2017, and plans to continue to comply with the terms of the note agreement. During fiscal year 2017, BMC forgave \$174,892 of the note, which is included in grants, contracts and contributions in the accompanying combining statements of activities and changes in net assets for the years then ended. As of June 30, 2017, \$2,156,999 is outstanding related to this agreement. The cost of the EPIC software is included in property and equipment (see Note 5).

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 51% and 47% of net patient service revenue was from the Commonwealth of Massachusetts, Office of Health and Human Services, the MassHealth program (Medicaid) for the years ended June 30, 2017 and 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, 2017 and 2016, or on the changes in their net assets for the years then ended.

Approximately 31% and 35% of patient services receivable in the accompanying statements of financial position are due from Medicaid as of June 30, 2017 and 2016, respectively. Approximately 18% and 21% of patient services receivable in the accompanying statement of financial position are due from HSN as of June 30, 2017 and 2016, respectively.

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

10. FUNDING (Continued)

Contracts

Approximately 68% and 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 years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, approximately 24% and 29%, respectively, of contract, grant and other receivables in the accompanying statements 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, 2017 and 2016, or on its changes in net assets for the years then ended.

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 combined a shared savings/risk arrangement with quality incentives. The Agency was effectively paid on a per member per month (capitation) basis using historical information. The Agency had approximately 1,200 members enrolled at December 31, 2016. PCPRI was 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 was for the period January 1, 2015 to December 31, 2015, and year three was for the period January 1, 2016 to December 31, 2016.

Under PCPRI, the Agency expected 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 2017 and 2016, the Agency received CPCP payments of approximately \$1,678,000 and \$2,241,000, respectively, which are included in net patient service revenue in the accompanying statements of activities for the years ended June 30, 2017 and 2016. The Agency was eligible for a Hold Harmless settlement if the Agency's CPCP payments were less than what the reimbursement had been under traditional fee for service reimbursement from MassHealth, as defined in the PCPRI contract. The Hold Harmless settlements were 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, 2017 and 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 BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC.

Notes to Financial Statements
June 30, 2017 and 2016

10. FUNDING (Continued)

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 2017 cannot be determined as of June 30, 2017, 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 did not record an accrual as of June 30, 2017 due to termination of the program and the Agency's expectation of not owing any payment back to MassHealth. The Agency had previously estimated and accrued for a potential settlement owed to MassHealth as of June 30, 2016, based on their analysis.

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 years ended June 30, 2017 and 2016, were \$1,129,044 and \$1,068,623, respectively, and are included in fringe benefits in the accompanying statements 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 are as follows:

<u>Fiscal Year</u>	
2018	\$ 113,342
2019	\$ 116,175
2020	\$ 119,080
2021	\$ 122,057
2022	\$ 135,555

In May 2017, the Agency entered into an agreement to lease copier equipment. The lease agreement expires in August 2022. Monthly payments on this lease are \$5,690 over the life of the lease.

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13. MEDICAL MALPRACTICE INSURANCE

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

The Agency is insured for professional liability coverage through the Federal Bureau of Primary Health Care, known as the Federal Tort Claims Act (FTCA), in accordance with the Public Health Services Act. This coverage is provided to the Agency through its Section 330 Community Health Center grant administered by 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. RECLASSIFICATIONS

Certain amounts in the fiscal year 2016 financial statements have been reclassified to conform with the fiscal year 2017 presentation.