ATTORNEY GENERAL'S CHARITABLE TRUSTS UNIT
REPORT REGARDING HARBOR HOMES

SEPTEMBER 13, 2019

I. INTRODUCTION

Harbor Homes is a group of charitable organizations and a large New Hampshire provider of housing, behavioral health and medical services. It has grown over the years to become a group of organizations performing important services in Nashua and statewide, with about $40 million in annual revenues. Recently it has become the lead provider of services in Nashua relating to substance use disorder.

Most of Harbor Homes' work is funded through government contracts and grants, principally with the New Hampshire Department of Health and Human Services (DHHS). It also has funding relationships with several federal agencies, specifically the Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and Health and Human Services, Health Resources & Services Administration (HRSA).

In 2018, DHHS staff conducted program reviews of two Harbor Homes organizations, Harbor Homes, Inc. (HHI) and Greater Nashua Council on Alcoholism d/b/a Keystone Hall (GNCA). DHHS issued Site Review Reports on July 3 and 5, 2018 respectively. Those program reviews found specific instances of absent internal controls and inadequate contract performance. The reports made specific recommendations for improvement.

Harbor Homes' continuing financial losses throughout 2018 compounded the operational issues raised in the DHHS program reviews. As a result, in early 2019 the Charitable Trusts Unit (CTU) of the Department of Justice (DOJ) exercised its common law and statutory authority to investigate all of the Harbor Homes entities. CTU received the assistance of auditors from the Department of Revenue Administration (DRA) who regularly examine complex enterprises. In addition, CTU received information from staff at DHHS who manage contracts with Harbor Homes. CTU also retained an independent business analyst, John A. Gilbert, to review the Harbor Homes organization and its business model.

II. EXECUTIVE SUMMARY

Harbor Homes is a group of twelve entities that are not legally connected, but which share a common board of directors and top management. This complex organizational structure has contributed to Harbor Homes' financial challenges.

While Harbor Homes is a large organization with revenues of more than $38 million and net assets of $7 million, it faces a number of financial problems. In recent years, it has struggled to maintain sufficient balances in its cash accounts for ongoing operations. Harbor Homes staff sometimes writes checks without sufficient funds in an account, which assumes there will be a delay before check presentment, but which on occasion results in overdraft fees. Harbor Homes also relies heavily upon four lines of credit to provide needed cash. A companion report by John A. Gilbert provides further analysis of Harbor Homes' revenues and expenses, assets and debts.

To cope with its shortage of cash, Harbor Homes frequently redirects resources among its many organizations and programs. There are thousands of intercompany and inter-program transactions with little supporting documentation. Often only one side of these transactions is recorded, or is recorded as a miscellaneous transaction, and with no resulting bookkeeping elimination. Former staff report that funds were moved between programs and entities simply to meet cash needs. It is impossible to trace many of these entries, given that thousands of them appear on the general ledger.

Harbor Homes staff created monthly financial statements for its board of directors and DHHS. There are a number of instances in which the internal trial balance of Harbor Homes did not match what the board or DHHS received. Sometimes balances submitted to DHHS appeared more favorable than internal figures. In comparison with actual results, Harbor Homes' budgeted categories for income and expenses show wide swings, indicating problems with the budgeting process.

DHHS completed program reviews of two Harbor Homes entities, identifying a number of deficiencies. DHHS staff still note the presence of a number of contract performance issues, especially with billing and invoicing.

In recent years, the compensation package of Harbor Homes' president has remained high in comparison to similarly sized New Hampshire nonprofit organizations, despite the organization's financial struggles.

This report offers a number of recommendations in order that Harbor Homes may address its financial and operational issues.

III. SCOPE AND METHODOLOGY

The reviewers looked at the following categories of materials received from Harbor Homes:

- Fiscal year 2018 general ledger and trial balances for HHI
- Partial fiscal year 2019 general ledger and trial balances for HHI
- Bank account statements and reconciliations
- Selected loan agreements, promissory notes and mortgages
- Audited financial statements for fiscal years 2009 through 2018
- IRS Forms 990 for fiscal years 2009 through 2018

- Monthly financial statements presented to the board of directors
- Monthly financial statements presented to DHHS
- Contracts with DHHS
- Summaries of some payroll records
- Selected policies
- Organization chart
- Minutes of finance committee meetings

The reviewers also considered the following:

- Interviews with Harbor Homes financial staff
- Interviews with former staff
- Interviews with Harbor Homes' auditors, Melanson Heath & Company, PC (Melanson).
- Materials from DHHS

From this, the reviewers compiled data, compared records, calculated ratios, interviewed relevant persons, researched applicable standards, and reached conclusions. This report focuses on Harbor Homes' financial performance as well as its bookkeeping and financial reporting. It touches on operational issues as well, but does not delve into compliance with the terms of contracts between Harbor Homes and governmental agencies. Finally, this report does not examine the quality of the many health and human service programs that Harbor Homes sponsors.

IV. THE ENTITIES AND THEIR ACTIVITIES

Harbor Homes is the commonly used term to refer to twelve different entities, some of which fall under the trade name Partnership for Successful Living. These entities are:

- Harbor Homes, Inc. (HHI) – the original and largest entity, operating over 70 programs, including those funded by DHHS, HUD, VA and HRSA, and founded in 1980.
- Harbor Homes II, Inc. (HUD II) – operates housing for the mentally ill, funded by HUD.

- Harbor Homes III, Inc. (HUD III) – operates housing for the mentally ill, funded by HUD.

- HH Ownership, Inc. (HHO) – operates housing for the mentally ill, funded by HUD.

- Partnership for Successful Living, Inc. – a trade name of HHI, incorporated in 2018 as a separate entity.

- Greater Nashua Council on Alcoholism d/b/a Keystone Hall (GNCA) – operates substance use disorder treatment and recovery programs.

- Healthy at Home, Inc. (HAH) – operates home healthcare services in the Nashua area.

- Welcoming Light, Inc. (WLI) – operates housing and services for senior citizens and the disabled, as well as other programs.

- Southern New Hampshire HIV/AIDS Task Force, Inc. (Task Force) – operates housing and services for those dealing with HIV/AIDS.

- Milford Regional Counseling, Inc. – operates a mental health counseling center.

- SARC Housing Needs Board, Inc. – operates Woodview Commons housing in Salem (recently acquired entity).

- Harbor Homes Plymouth, LLC – development of new housing project for veterans in Plymouth; it in turn owns 0.01% of Boulder Point, LLC.

Except for the two for-profit LLCs, the other Harbor Homes entities are separate nonprofit corporations. They are not legally connected through membership, which is a parent-subsidiary relationship available to nonprofits. While each entity is therefore technically independent, still the board of directors and top management for each entity are comprised of the same individuals.

As will be discussed later, the proliferation of nominally independent entities has contributed to Harbor Homes' management and financial challenges. The stated reason for this complexity is a HUD requirement that certain housing programs be operated within separate entities. That requirement has not been verified, and it does not explain why subsidiary entities would not be acceptable. Still, a number of Harbor Homes entities are not dependent upon HUD funding, while they contribute to the proliferation of nonprofit corporations.

V. FINANCIAL PERFORMANCE

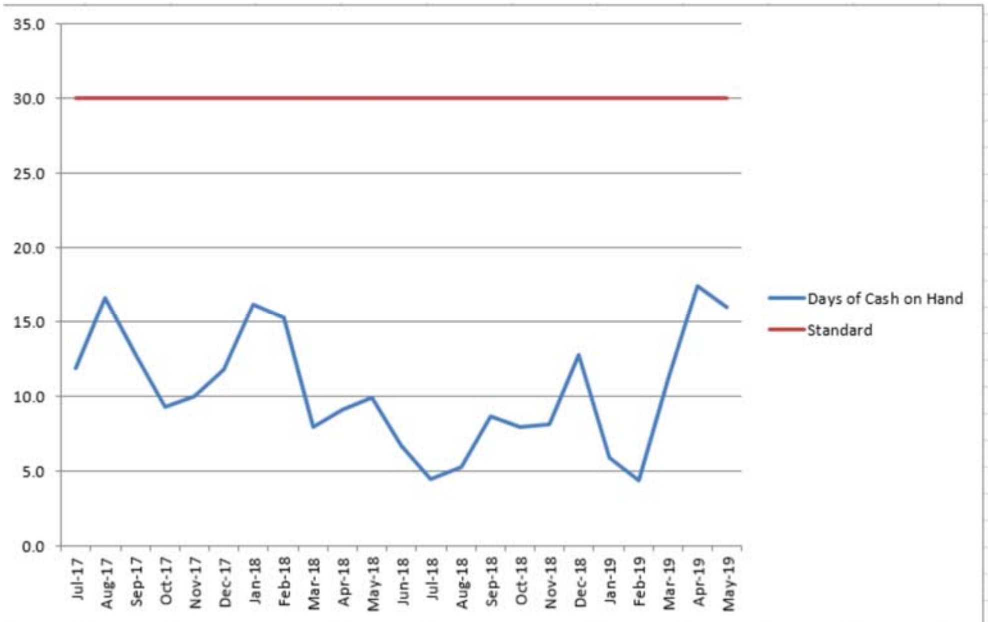
At first glance, Harbor Homes appears to be a financially stable, large charitable organization. Its fiscal year 2018 consolidated audit shows $31,000,000 in property and equipment after depreciation, unrestricted net assets of $7,000,000, and revenues of $38,000,000. But those top line numbers do not reveal significant financial problems below. Mr. Gilbert's report, attached, analyzes Harbor Homes' performance over time, addressing many aspects of its financial performance. This section will focus on Harbor Homes' liquidity as shown on its books of account.

Harbor Homes' most obvious weakness is its lack of cash. The following chart derived from the HHI trial balance shows the balances in its cash accounts as of the end of fiscal years 2017 and 2018:

Client:	*HARBOR - Harbor Homes, Inc.*		
Engagement:	*FS18 - 2018 Harbor Homes, Inc. - Au*		
Period Ending:	*6/30/2018*		
Trial Balance:	*Trial balance - HHI consolidated*		
Workpaper:	*WTB-010 - Working trial balance - cc*		
Account	**Description**	**CONSOL 6/30/2018**	**1st PP-CONSOL 6/30/2017**
Group : [A]	**Cash and Investments**		
Subgroup : [A1]	**Cash**		
11-10001	Program NOW Account	(288,812.18)	(183,653.40)
11-10004	Insurance Payments	529.25	942.59
11-10005	Charles Schwab Money Market Fund	1,342.49	1,119.62
11-10010	Petty Cash	350.00	350.00
11-10013	HUD ACH Drawdowns	21.38	21.38
11-10016	HHI - Payroll Checking	5,394.36	118.48
11-10017	Cash: Debit Card	1,232.12	9,200.04
11-10018	Circles TD Checking	28,132.46	0.00
11-10022	SSVF ACH Deposits	24,214.07	1,334.27
11-10026	Cash: HVRP (DOL) Deposit Acct	70.26	69.09
11-10028	HHI-Unrestricted Reserves	73.83	1,078.72
11-10032	Partnership Donations Account	303.76	1,561.76
21-10201	HUD I Operating NOW Account	227.30	1,684.36
25-10251	HUD VI - Claremont Operating	2,048.00	900.83

The negative amounts above indicate accounts with outstanding checks that have been written but not yet cashed. This lack of cash leaves Harbor Homes with little in reserve to pay its day to day expenses, including payroll.

Cash levels are typically measured by determining the number of days that an organization can operate relying solely on its cash accounts. While Harbor Homes' number of days of cash on hand has improved in recent months, it still trails the DHHS expected minimum of 30 days. The following shows the days of cash at each month end in fiscal years 2018 and 2019 to date:



Given the proliferation of bank accounts and the lack of cash, it is not surprising that Harbor Homes sometimes got caught "playing the float" by issuing checks with insufficient funds in the associated bank account.

In fiscal year 2018, Harbor Homes incurred fees for 424 overdrafts of checks written on its accounts. At $35 per fee, it amounted to $14,840. Harbor Homes hoped that there would be sufficient funds to cover the check at a future date, and had the comfort to know that the bank would cover the check in any event, but at the cost of an overdraft fee. The Harbor Homes chief financial officer reported that shortfalls occurred when Harbor Homes had not yet received expected payment from the State of New Hampshire on one of its contracts.

These low days of cash on hand, as well as the overdrafts, appear despite Harbor Homes' extensive use of lines of credit. The following chart shows month end balances on its four lines of credit (two are combined for HHI). There does not appear to be a recent period in which the lines of credit have been paid down for a period of time, meaning that these lines of credit are de facto term loans. Mr. Gilbert discusses in greater detail the terms of and the use of the lines of credit.

HARBOR HOMES & Affiliates
Line of Credit - Current Balance

	Jul '18	Aug '18	Sept '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19
Harbor Homes	954,303	1,002,307	1,240,276	634,919	864,429	795,078	870,699	896,621	1,001,387
G.N.C.A.	348,779	338,779	338,779	338,779	338,779	318,779	126,847	293,779	273,779
Healthy at Home	229,436	229,436	229,436	226,936	225,436	225,436	220,436	220,436	220,436
TOTALS	1,532,518	1,570,521	1,808,491	1,200,633	1,428,644	1,339,293	1,217,982	1,410,835	1,495,602

In his report, Mr. Gilbert details an additional hazard to Harbor Homes caused by its tenuous cash situation: an increased risk of default on one or more of its non-deferred loans. That in turn could lead to cascading defaults on Harbor Homes' many deferred loans. In reporting its financial ratios, Harbor Homes excludes deferred mortgages from its debt analysis, and that may understate the true risk.

Mr. Gilbert has made specific recommendations to address the poor cash situation. Currently, Harbor Homes is being resourceful in meeting its current obligations despite its cash problems. So long as the organizations retain their inventory of government contracts, Harbor Homes likely can keep their operations going in the near term. CTU and Melanson recently opined that a four month extension of Harbor Homes' contracts with DHHS would likely offer Harbor Homes four to six months of continued viability.

VI. BOOKKEEPING

The resourcefulness of Harbor Homes in keeping its operations moving forward under the circumstances is demonstrated in its use of funds. Having created a web of organizations and programs, Harbor Homes employs an improvised operational structure that moves funds as needed and when needed. This becomes readily apparent upon examining how Harbor Homes handles its bookkeeping. Given the proliferation of entities and programs, accurate bookkeeping is both essential and a challenge.

Harbor Homes maintains separate checking accounts for each of its entities, yet also uses HHI's central bank accounts for activities of the other entities.

Entities previously used different accounting software, including QuickBooks, as late as 2018, but now all of Harbor Homes use Abila MIP Fund Accounting. Still, Harbor Homes maintains five separate financial databases for its entities (one database is used for five of the entities).

Until fiscal year 2018, Melanson reported separately the audited financial statements for the Harbor Homes entities except for Healthy at Home, audited by Berry Dunn McNeil & Parker, LLC. This made it impossible to understand the financial status of Harbor Homes as a whole. For the first time in 2018, Melanson prepared consolidated audited statements, and also prepared separate audited statements for several of the Harbor Homes entities. Melanson had urged Harbor Homes ten years before to permit the creation of consolidated financial statements.

1. Intercompany Transactions

The proliferation of entities, programs, bank accounts, and databases should come with strict observance of accounting standards for intercompany transactions. In recognition of that standard, Melanson reported in its audited financial statements for six of the entities that there is a "contract" for maintenance and landscaping services with HHI. Yet at a meeting on June 21, 2019, Melanson reported that there are no written contracts for services among the entities. The 2018 audited financial statements of HAH and GNCA reflect that HHI provides those organizations with services, but there are no written contracts. In the absence of contracts, or even memoranda, there can be no assurance that a particular intercompany or inter-program charge is proper.

Moreover, according to the AICPA Committee on Accounting Procedure, *Consolidated Financial Statements*, Accounting Research Bulletin (ARB) No. 51, as amended, "*[i]n the* *preparation of consolidated statements, intercompany balances and transactions should be eliminated.* This includes intercompany open account balances, security holdings, sales and purchases, interest, dividends, etc. As consolidated statements are based on the assumption that they represent the financial position and operating results of a single business enterprise, such statements should not include gain or loss on transactions among the companies in the group. Accordingly, any intercompany profit or loss on assets remaining within the group should be eliminated; the concept usually applied for this purpose is gross profit or loss." (emphasis added).

Proper documentation is important with respect to intercompany transactions because Harbor Homes' income derives largely from government contracts for specific programs. The funds received should be used to support the program associated with that contract. While it may be appropriate for one Harbor Homes entity to perform a service for another, and get paid for it, good record keeping is essential to verify that funds are not accidentally or intentionally misused.

Interviews with former Harbor Homes management staff reported that:

- Funds were moved between programs and entities as needed to meet cash needs.
- Some billing for staff time got allocated among programs and entities to match available funding, whether or not it meshed with the staff person's actual duties.
- Bonuses would be awarded to staff based on available program surpluses.
- Blanket charges were assessed for services – like information technology – whether or not there was equipment or services provided.

Given the record keeping available, the reviewers could not locate financial records that could confirm specific instances of this behavior.

The inability to trace particular transactions between entities is compounded by the large number of instances in which eliminations did not appear in Harbor Homes' financial statements. In an elimination, an income item in one entity should cancel out an expense item in another. Given the complexity of the organization and the volume of transactions among entities, one would expect to see high numbers of completed eliminations. That was not the case. By way of example, eliminations were not found for the following 2018 fiscal year intercompany expenses due to HHI:

Rent:

- Task Force $64,513
- Healthy at Home $51,108
- GNCA $56,436 ($27,383 shown as paid to HHI)

Maintenance, landscaping and cleaning services:

- HUD II $28,384
- HUD III $21,606
- MRCS $1,415
- GNCA $21,377
- HHO $1,491

Furthermore, the general ledger shows that Harbor Homes moved cash between the bank accounts of entities when needed. Those transactions are not recorded consistently. For instance, Task Force lent a total of $80,000 to HHI during fiscal year 2018. It was recorded as a "loan" on the books of Task Force and a "transfer" on the books of HHI. HHI made a $6,000 "transfer" to HAH, recorded as a "loan" on the HAH books. HHI repaid a $70,000 "loan" from GNCA, but no corresponding transaction could be located on the GNCA due to/due from HHI accounts. There is no written documentation to support any of these loans.

This informality of intercompany and inter-program transfers means that Harbor Homes accounting staff can move funds as needed without set agreements.

2. Miscellaneous Transactions

The extensive use of "miscellaneous transactions" presented another difficulty in tracing particular income and expense items. It also reflects the willingness of Harbor Homes accounting staff to move resources whenever deemed necessary.

The general ledger for fiscal year 2018 revealed 17,002 line items recorded as "miscellaneous transactions". Collectively the sum of these back and forth transactions in fiscal year 2018 amounted to $226,149,479.84 for an enterprise with revenues of less than $40 million. Many of these transactions are noted as "to correct funding/reclass funding source", without backup information. Some are to cash accounts without corresponding activity on a bank statement for that entity. A sample page from the November 2017 general ledger showing these miscellaneous transactions (in bold) appears below:

GL C	GL Title	Doc Number	Description	Session ID	Effect	Doc D	De	Cre	Tran Sr	Fund Code
10022	SSVF ACH Deposits				Current Balance		1,336.77			11
10022	SSVF ACH Deposits	GRANTPAY-1	ACH GRANT PAYMENT 11/0	ARCACHGRANTP	11/3/2017	11/3/2017	24,620.00		ARC	11
10022	SSVF ACH Deposits	1284	SSVF DRAWDOWN	APM00933	11/6/2017	11/6/2017		24,620.00	CD	11
10022	SSVF ACH Deposits	1285	SSVF DRAWDOWN	APM00935	11/8/2017	11/8/2017		7,840.00	CD	11
10022	SSVF ACH Deposits	GRANTPAY-1	ACH GRANT PAYMENT 11/0	ARCACHGRANTP	11/8/2017	11/8/2017	7,840.00		ARC	11
10022	SSVF ACH Deposits	GRANTPAY-1	ACH GRANT PAYMENT 11/1	ARCACHGRANTP	11/15/2017	11/15/2017	15,136.00		ARC	11
10022	SSVF ACH Deposits	GRANTPAY-2	ACH GRANT PAYMENT 11/1	ARCACHGRANTP	11/15/2017	11/15/2017	14,414.00		ARC	11
10022	SSVF ACH Deposits	1286	SSVF DRAWDOWN	APM00936	11/15/2017	11/15/2017		29,550.00	CD	11
10022	SSVF ACH Deposits	1287	FUNDS FROM GNCA	APM00936	11/15/2017	11/15/2017		50,000.00	CD	11
10022	SSVF ACH Deposits	CT17/11-23	Xfer from Keystone Op to Pl	JV171130 CT-01	11/15/2017	11/15/2017	50,000.00		JV	11
10022	SSVF ACH Deposits	1289	SSVF DRAWDOWN	APM00939	11/22/2017	11/22/2017		29,006.00	CD	11
10022	SSVF ACH Deposits	GRANTPAY-2	ACH GRANT PAYMENTS 11/	ARCACHGRANTP	11/22/2017	11/22/2017	29,006.00		ARC	11
10022	SSVF ACH Deposits	MISC17/11-85	To Record Interest	JV171130 MISC-1	11/30/2017	11/30/2017	0.41		JV	11
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**5,163,352.72**		**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**101,461.00**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**1,829,822.00**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**784,678.00**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**6,563.00**		**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**12.01**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**98,165.50**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**2,355,777.21**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**220,144.23**		**JV**	**15**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**252,022.00**	**JV**	**15**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**41.83**		**JV**	**15**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**31,835.94**		**JV**	**15**

While it may be appropriate to have some financial activity not directly associated with a specific program or entity, there should be a single generic cost code. At Harbor Homes, there are at least two codes used for these transactions: “default” and “no cost center”, and no explanation of when either of these should be used. In addition to the opacity in the use of miscellaneous transactions as a descriptor, the sheer volume of these journal entries is troubling.

VII. FINANCIAL REPORTING

The Harbor Homes entities have a common board of directors. The fiduciary duty of care requires that they be familiar with the financial standing of the organizations, review monthly reports, create budgets, compare budgets to actual results, review audits and consult with the auditor. A nonprofit board may delegate some of its tasks to a finance committee that works closely with financial staff.

In a large enterprise, the finance committee or the treasurer cannot be expected to spot check the bank statements or the general ledger. In that case, the board of directors should have adopted adequate policies governing accounting operations and monitored by the auditor, such that the board and finance committee may rely upon the monthly internal reports prepared by staff. This protocol works only if all financial controls are in place and are observed. Only then will the board and finance committee receive timely and accurate information.

Moreover, because Harbor Homes receives about $28 million of its funding from programs administered by DHHS, HHI and GNCA are expected to provide DHHS with monthly financial statements and a variety of financial ratios. DHHS has specific expectations for these ratios. The failure to meet those expectations may result in a corrective action plan, or possible non-renewal of the contract.

1. Reports to DHHS and Finance Committee

There are a number of instances in which the finance committee and/or DHHS received monthly information different from that appearing on Harbor Homes' internal financial records. For instance while the HHI 2018 fiscal year end trial balance total revenue equaled the income statement revenue figure presented to DHHS, individual line items varied widely, as shown here:

BOD 6/30/2018	
Net Revenues	
Federal Grants	8,616,334.54
State and Local Grants	9,705,323.99
Medical Billing	5,933,450.91
Rents & Conferences	1,360,329.98
Production Revenue	74,272.87
Donations and Fundraising	1,371,992.23
Contracted Services	725,449.98
Interest	3,445.25
Other Revenue	192,980.20
Cost of Goods Sold	(557,126.55)
Bad Debt	(297,947.65)
Total Net Revenues	27,128,505.75
Plus Cost of Goods Sold	*557,126.55*
Plus Bad Debt	*297,947.65*
	27,983,579.95

DHHS State Ratios 6/30/2018	YTD Actual
Revenues	
Medicaid	3,327,267.08
Medicare	1,085,172.68
HUD Grants	2,907,711.00
VA Grants	2,213,700.66
Federal Grants - Other	3,533,972.88
State, local and Other Grants	5,621,390.24
Production Revenue	74,272.87
Public Support	1,253,656.05
Rent & Service Charges	805,404.31
Client Billings	348,506.51
Insurances	932,262.91
Outside Rent	554,925.67
Fundraising Revenue	118,336.18
Sliding Scale/Free Care	2,959.35
Interest	899.13
Other Revenue	5,203,142.43
Total Revenues	27,983,579.95

Fiscal year 2018 fundraising expenses were reported differently to DHHS and CTU (in February 2019), the finance committee, and on the audited financial statements as follows:

EXPENSES	DHHS P&L (CC 619,661,620,626)	BOD (CC 661)	Audited Financial Statements
Fundraising	$867,626	$462,844	$559,731

Both the finance committee and DHHS pay close attention to the cash position of Harbor Homes, particularly because it has struggled to maintain a good cash position. Reporting more funds as currently available cash improves the monthly internal reports. Beginning with the September, 2018 monthly report to DHHS, management included unused but available funds from lines of credit. That has improved the cash position of HHI as reported to DHHS. Interestingly, the internal monthly reports given to the investment committee do not include unused but available line of credit funds as part of the cash report. Basic accounting principles do not permit the inclusion of unused credit lines. They are considered to be "off-balance sheet" items. Moreover, the inclusion of available credit lines as cash should be offset by an accompanying addition to liabilities. The following chart illustrates this:

	06-2018	07-2018	08-2018	09-2018	10-2018	11-2018	12-2018	01-2019	02-2019
CASH and INVESTMENT per DHHS	498,658	309,952	404,044	678,608	619,821	620,102	981,189	448,130	319,534
Restricted Cash and Funded Reserves per DHHS	340,003	341,925	343,750	345,787	328,419	342,064	359,961	359,154	318,351
TOTAL	**838,661**	**651,877**	**747,794**	**1,024,395**	**948,240**	**962,166**	**1,341,150**	**807,284**	**637,885**
CASH and INVESTMENTS per BOD	21,304	208,859	60,456	209,271	144,601	386,913	772,162	318,829	138,475
Restricted Funds per BOD	528,545	835,759	965,109	940,784	903,339	317,958	336,403	335,831	337,272
TOTAL	**549,849**	**1,044,617**	**1,025,565**	**1,150,055**	**1,047,939**	**704,871**	**1,108,565**	**654,660**	**475,747**
Variace for HHI cash DHHS v. BOD	288,812	(392,740)	(277,771)	(125,660)	(99,699)	257,295	232,585	152,624	162,138
Line of Credit DHHS	702,208	954,303	1,002,307	1,500,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Line of Credit BOD	702,208	954,303	1,002,307	1,240,276	634,919	864,429	795,078	870,699	896,621
Variance	(0)	(0)	0	259,724	365,081	135,571	204,922	129,301	103,379

Similarly, HHI reported to DHHS a cash amount as of June 30, 2018 that did not include a debit for outstanding checks on its NOW Account in the amount of $288,812. By contrast, the cash report for that period provided to the investment committee did account for those checks, and showed a cash balance $288,812 less than that reported to DHHS. The following spread sheet illustrates the failure to account to DHHS for the outstanding checks:

Group : [A]	Cash and Investments	HHI	HUD I	HUD VI	Per June 2018 Bank Statements	Variance
Subgroup : [A1]	Cash					
11-10001	Program NOW Account	(288,812.18)	0.00	0.00	-	(288,812.18)

	06-2018
CASH and INVESTMENT per DHHS	498,658
Restricted Cash and Funded Reserves per DHHS	340,003
TOTAL	**838,661**
CASH and INVESTMENTS per BOD	21,304
Restricted Funds per BOD	528,545
TOTAL	**549,849**
Variance for HHI cash DHHS v. BOD	288,812
Line of Credit DHHS	702,208
Line of Credit BOD	702,208
Variance	(0)

The reports provided to the finance committee showed net revenue (loss) numbers that varied from those appearing on the IRS Form 990 as follows:

6/30/2018	P&L (BOD)	Form 990	VARIANCE
HHI	(371,300.28)	(337,761.00)	(33,539.28)
HUD II	(13,879.08)	(13,881.00)	1.92
HUD III	6,859.98	6,859.00	0.98
HHO	(16,800.46)	(17,673.00)	872.54
HAH	(192,241.22)	(292,109.00)	99,867.78
WLI	422.95	1,488.00	(1,065.05)
GNCA	(225,362.82)	(211,585.00)	(13,777.82)
TF	10,758.75	10,758.00	0.75
MRCS	2,636.87	2,663.00	(26.13)
TOTAL	(798,905.31)	(851,241.00)	52,335.69

Taken as a whole, these variances show a pattern of Harbor Homes accounting staff preparing information for its finance committee and for DHHS different from that on its general ledger. These discrepancies call into question the accuracy of all of the financial reporting prepared by

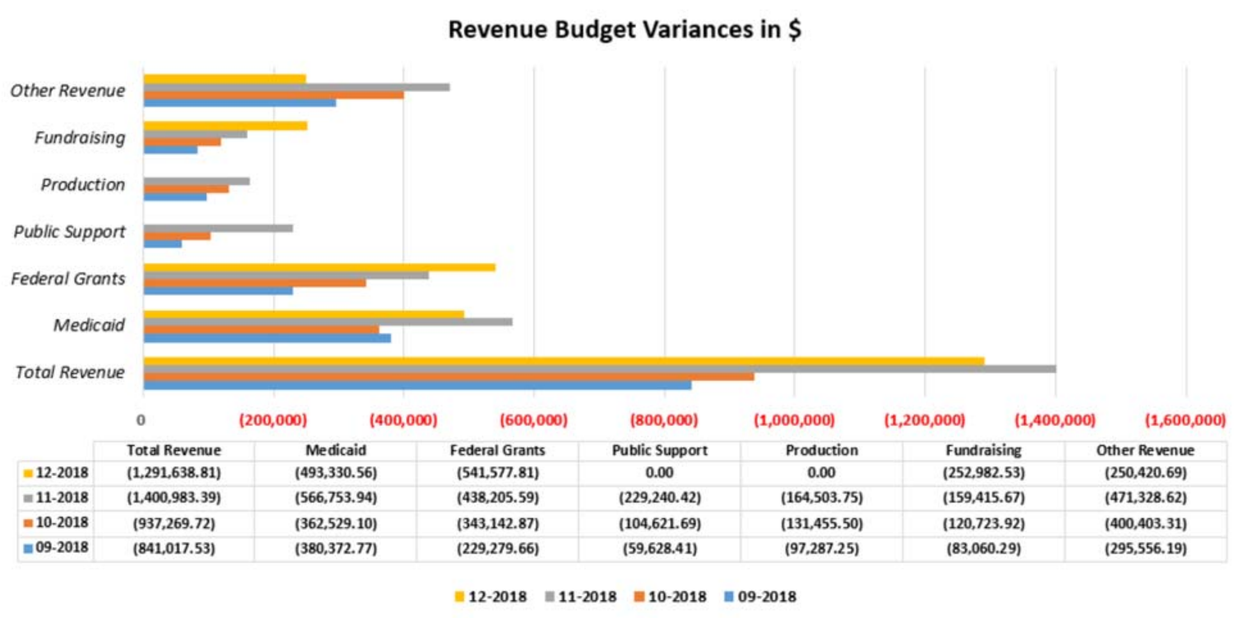
Harbor Homes financial management. It is particularly troubling that some of the reports provided to DHHS showed better financial performance than Harbor Homes internal reports.

2. Quality of Budgeting

The finance committee and board create a budget each fiscal year, broken out into categories, which should present a financial roadmap for Harbor Homes. In order for the finance committee to track performance over the course of the year, the budget is broken out to include monthly income and expense amounts. In a number of categories during fiscal years 2018 and 2019, actual expenses have varied significantly from budget in a number of categories, as follows for HHI:

Month-Year	Fees - YTD Variance	Fees - % of Variance	Bad Debt - YTD Variance	Bad Debt - % of Variance	Depreciation - YTD Variance	Depreciation - % of Variance
07-2017	(6,874.38)	-656.00%	893.44	6.55%	(9,229.58)	11.28%
08-2017	(23,260.03)	-1109.82%	13,034.11	47.81%	(26,768.20)	16.36%
09-2017	(6,703.61)	-134.81%	27,413.17	60.05%	15,282.81	5.12%
10-2017	(8,939.30)	-134.83%	11,185.80	18.38%	23,647.33	5.94%
11-2017	(12,402.47)	-149.65%	(4,519.16)	-5.94%	33,786.54	6.79%
12-2017	(14,539.49)	-146.20%	(35,315.04)	-38.68%	44,327.29	7.43%
01-2018	(16,749.33)	-144.36%	(114,354.80)	-107.35%	55,604.30	7.99%
02-2018	(19,197.20)	-144.78%	(13,988.17)	-11.49%	65,579.32	8.24%
03-2018	(37,698.85)	-252.72%	(180,366.72)	-131.69%	57,357.54	6.41%
04-2018	(41,938.82)	-253.02%	(125,512.16)	-82.48%	65,057.96	6.54%
05-2018	(44,091.45)	-241.83%	(117,484.57)	-70.18%	72,758.38	6.65%
06-2018	(52,563.73)	-264.27%	(115,334.65)	-63.16%	80,546.35	6.75%
07-2018	(6,874.38)	-656.00%	893.44	6.55%	(9,229.58)	-11.28%
08-2018	(23,260.03)	-1109.82%	13,034.11	47.81%	(26,768.20)	-16.36%
09-2018	(27,887.13)	-887.06%	27,413.17	67.03%	(53,438.88)	-21.78%
10-2018	(37,836.26)	-902.65%	(64,103.99)	-117.56%	(66,592.52)	-20.35%
11-2018	(42,385.19)	-808.94%	(54,104.50)	-79.38%	(77,386.47)	-18.92%
12-2018	(48,578.33)	-772.62%	(52,602.45)	-64.31%	(88,180.50)	-17.97%
01-2019	(52,340.56)	-714%	(139,037.89)	-145.71%	(98,252.23)	-17.16%
02-2019	(56,251.24)	-671%	(148,444.12)	-136.12%	(108,580.38)	-16.59%
03-2019	(60,900.43)	-646%	(278,759.70)	-227.22%	(118,189.36)	-16.05%
04-2019	(67,800.24)	-647.00%	(170,898.83)	-125.37%	(127,229.92)	-15.55%

Similarly budgeted revenue has failed to meet expectations in a number of categories, as follows for HHI in fiscal year 2019:



	Total Revenue	Medicaid	Federal Grants	Public Support	Production	Fundraising	Other Revenue
12-2018	(1,291,638.81)	(493,330.56)	(541,577.81)	0.00	0.00	(252,982.53)	(250,420.69)
11-2018	(1,400,983.39)	(566,753.94)	(438,205.59)	(229,240.42)	(164,503.75)	(159,415.67)	(471,328.62)
10-2018	(937,269.72)	(362,529.10)	(343,142.87)	(104,621.69)	(131,455.50)	(120,723.92)	(400,403.31)
09-2018	(841,017.53)	(380,372.77)	(229,279.66)	(59,628.41)	(97,287.25)	(83,060.29)	(295,556.19)

While some variance in budgeting is to be expected, normally up to ten percent, this level of deviation indicates problems in the budgeting process. This is particularly the case when there is a wide discrepancy in predictable budgeted items like depreciation.

3. Meeting with Auditor

Particularly important to a board and finance committee is the annual meeting with the auditor to review the financial statements. Melanson did meet annually with the finance committee to present their reports. In recent years, Melanson did not report on observations requiring the issuance of a management letter. They did issue less formal "side letters" to management, which were mentioned to the finance committee.

VIII. OPERATIONAL ISSUES

1. Contract Compliance

The DHHS Site Review Reports for HHI and GNCA described a number of deficiencies in compliance with specific terms of contracts with DHHS. The reports included commitments from HHI and GNCA to address a number of those issues. This report does not address those matters.

There is a consistent concern expressed about proper billing for client services payable either by Medicaid or by the DHHS Bureau of Drug and Alcohol Services. One issue – promptness in submitting Medicaid billing – gets reflected in ratios reported monthly to DHHS. Harbor Homes is now in compliance with recommended days to get out billing. DHHS staff notes that since

Harbor Homes hired a compliance officer several months ago there has been improvement with submission of billing and other required information.

The specifics of Harbor Homes' performance – and especially the sufficiency of documentation to support billing and the accuracy of coding for services – are contractual matters beyond the scope of this review.

2. Executive Compensation

The chief executive officer is the only employee of a charitable organization supervised by the board of directors. As such, the board has the responsibility to hire, evaluate, determine compensation, and (when needed) replace that staff person.

Peter Kelleher serves as the president and chief executive officer of Harbor Homes, was its first employee, starting with the organization in 1982. He had led the organization as it has grown and succeeded over 37 years.

The president is well compensated. He receives paychecks from 6 of the Harbor Homes entities. In fiscal year 2018, he earned salaries totaling $335,921 plus other compensation (pension, life and health insurance benefits, etc.) of $81,662. In fiscal year 2017, he earned salaries and bonus totaling $423,345 plus other compensation of $78,832. In fiscal year 2016, he earned salaries and bonus totaling $235,396 plus other compensation of $78,770.

Those amounts place the president on the high end of comparably sized social service organizations in New Hampshire (such as Riverbend Community Mental Health, Inc., Moore Center Services, Inc., Riverwoods, Inc., Southern New Hampshire Services, Inc., and Crotched Mountain Rehabilitation Services, Inc.). With many years of experience and a history of success, the board may determine that its president deserves to receive a substantial compensation package above the range of comparable organizations. On the other hand, the Harbor Homes entities have suffered combined losses from 2015 through 2018 that total $851,618 and the organizations face ongoing challenges of liquidity. The board of directors should review the president's compensation.

IX. RECOMMENDATIONS

The services that Harbor Homes currently provides are vitally important to Nashua and other communities in New Hampshire. Unfortunately, Harbor Homes has grown over the years into an unnecessarily complex set of organizations with inadequate financial systems and operational issues. Harbor Homes faces significant challenges, most immediate being a lack of cash liquidity. The board of directors should consider the following recommendations to address these issues:

- Retention of a business consultant to review and make recommendations for specific changes to the management, financial, and operational structure of Harbor Homes which addresses the findings in this report and Mr. Gilbert's report

- Simplification of the Harbor Homes corporate structure

- Reorganization of the financial structure by centralizing accounting databases, creating agreements for sharing of services, adopting proper procedures for intercompany and inter-program transactions, and procuring the right financial management

- Creation of systems for accurate and consistent financial reporting to board of directors and DHHS

- Retention of financial staff able to manage the budgeting, spending and reporting of finances

- Evaluation of all programs with the possible termination of programs that have operating losses

- Improvements in liquidity through annual and endowment fundraising

- Improvements in liquidity through adoption of operational efficiencies as recommended in Mr. Gilbert's report

- Evaluation of properties for possible sale or lease as suggested in Mr. Gilbert's report

- Commitment to compliance with all contractual performance requirements

- Continued commitment to timely and accurate billing for Medicaid services

- Review of the chief executive officer's compensation

ATTORNEY GENERAL'S CHARITABLE TRUSTS UNIT
REPORT REGARDING HARBOR HOMES

WITH COMMENTS FROM HARBOR HOMES AND
REJOINDERS FROM CHARITABLE TRUSTS UNIT

SEPTEMBER 13, 2019

I. INTRODUCTION

Harbor Homes is a group of charitable organizations and a large New Hampshire provider of housing, behavioral health and medical services. It has grown over the years to become a group of organizations performing important services in Nashua and statewide, with about $40 million in annual revenues. Recently it has become the lead provider of services in Nashua relating to substance use disorder.

Most of Harbor Homes' work is funded through government contracts and grants, principally with the New Hampshire Department of Health and Human Services (DHHS). It also has funding relationships with several federal agencies, specifically the Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and Health and Human Services, Health Resources & Services Administration (HRSA).

In 2018, DHHS staff conducted program reviews of two Harbor Homes organizations, Harbor Homes, Inc. (HHI) and Greater Nashua Council on Alcoholism d/b/a Keystone Hall (GNCA). DHHS issued Site Review Reports on July 3 and 5, 2018 respectively. Those program reviews found specific instances of absent internal controls and inadequate contract performance. The reports made specific recommendations for improvement.

Harbor Homes Comments:

The paragraph above, and the DHHS review, indicate that program reviews were conducted, but do not demonstrate that tests of internal controls in accordance with auditing standards were performed by DHHS. The "internal controls" referenced above, do not indicate the types of controls referred to. Internal controls can include:

- Internal controls over financial reporting
- Internal controls over compliance/program requirements

The terminology used above, "absent internal controls", is an inaccurate statement. Controls at some level always exist in any system or process whether it relates to an accounting system or carrying out the objectives of a grant or program. Instead, the effectiveness of existing controls (the design and operation) should be evaluated, and deficiencies reported, in accordance with Generally Accepted Auditing Standards.

Melanson Heath audits all entities except for Healthy at Home, which is audited by Berry Dunn. The internal controls for all of the Harbor Homes entities, including Healthy at Home, are the same. Both audit firms, Melanson Heath and Berry Dunn, reported no deficiencies in internal control considered to be material weaknesses in fiscal years 2010 through 2018, and no management letters were issued.

Charitable Trusts Unit Rejoinder:

This report is the result of a review of financial and operational records of Harbor Homes. It was not an audit, and formal auditing standards do not apply.

Auditing firms may report on the internal controls, financial or otherwise, of their clients. However, in its opinion letters accompanying its fiscal years 2017 and 2018 audits of HHI, Melanson Heath stated "we do not express an opinion on the effectiveness of Harbor Homes, Inc.'s internal control". The letters also stated: "material weaknesses may exist that have not been identified." Accordingly, the Melanson Heath audits are not at all determinative as to whether Harbor Homes has effective internal controls over its financial systems.

Moreover, while Melanson Heath did not issue management letters in fiscal years 2017 and 2018, it did issue "side letters", emailed to management, outlining some areas of concern.

Harbor Homes' continuing financial losses throughout 2018 compounded the operational issues raised in the DHHS program reviews.

Harbor Homes Comments:

The statement "continuing financial losses" is inaccurate. Based on the audited financial statements for HHI from fiscal year 2010 through fiscal year 2018, there were no losses before depreciation. Further, EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), including the removal of one-time revenues, shows positive results in all years. This information can be provided upon request.

Charitable Trusts Unit Rejoinder:

Reporting of financial results before depreciation, or of EBITDA, can be helpful to understand the fiscal health of an organization. But Harbor Homes reported financial losses on its audited financial statements and Forms 990 for fiscal years 2017 and 2018 as well as weak cash positions, and it is that combination which is concerning.

As a result, in early 2019 the Charitable Trusts Unit (CTU) of the Department of Justice (DOJ) exercised its common law and statutory authority to investigate all of the Harbor Homes entities. CTU received the assistance of auditors from the Department of Revenue Administration (DRA) who regularly examine complex enterprises. In addition, CTU received information from staff at DHHS who manage contracts with Harbor Homes. CTU also retained an independent business analyst, John A. Gilbert, to review the Harbor Homes organization and its business model.

II. EXECUTIVE SUMMARY

Harbor Homes is a group of twelve entities that are not legally connected, but which share a common board of directors and top management. This complex organizational structure has contributed to Harbor Homes' financial challenges.

While Harbor Homes is a large organization with revenues of more than $38 million and net assets of $7 million, it faces a number of financial problems. In recent years, it has struggled to maintain sufficient balances in its cash accounts for ongoing operations. Harbor Homes staff sometimes writes checks without sufficient funds in an account, which assumes there will be a delay before check presentment, but which on occasion results in overdraft fees. Harbor Homes also relies heavily upon four lines of credit to provide needed cash. A companion report by John A. Gilbert provides further analysis of Harbor Homes' revenues and expenses, assets and debts.

To cope with its shortage of cash, Harbor Homes frequently redirects resources among its many organizations and programs. There are thousands of intercompany and inter-program transactions with little supporting documentation. Often only one side of these transactions is recorded, or is recorded as a miscellaneous transaction, and with no resulting bookkeeping elimination.

Harbor Homes Comments:

The above statement is inaccurate. Specifically, CTU staff only reviewed transactions from Harbor Homes, Inc. The general ledgers of the other entities, showing the offsetting entries, were not reviewed. All intercompany and inter-program transactions have an offsetting entry or elimination. Intercompany accounts are reconciled monthly by Harbor Homes' staff, as well as tested annually by the independent auditors. Entry descriptions themselves sometimes do not provide for a detailed explanation; instead, the supporting documentation for each entry provides this level of detail. Had this information been obtained, it would have been clear that all offsetting entries were made and proper documentation was available.

Charitable Trusts Unit Rejoinder:

This is not the case. Refer to Part VI, Section 1 of the report.

Former staff report that funds were moved between programs and entities simply to meet cash needs.

Harbor Homes Comments:

The above statement is inaccurate. Reliance on the statements of former, potentially disgruntled staff is unreliable information. No cash funds were moved between programs since there are no separate bank accounts for programs. Further, no "transfers" of funds are reflected in any revenues or expenses for any program in fiscal year 2018.

Charitable Trusts Unit Rejoinder:

Harbor Homes moved funds among programs as needed. Refer to Part VI, Section 1 of the report.

It is impossible to trace many of these entries, given that thousands of them appear on the general ledger.

Harbor Homes staff created monthly financial statements for its board of directors and DHHS. There are a number of instances in which the internal trial balance of Harbor Homes did not match what the board or DHHS received. Sometimes balances submitted to DHHS appeared more favorable than internal figures. In comparison with actual results, Harbor Homes' budgeted categories for income and expenses show wide swings, indicating problems with the budgeting process.

DHHS completed program reviews of two Harbor Homes entities, identifying a number of deficiencies. DHHS staff still note the presence of a number of contract performance issues, especially with billing and invoicing.

In recent years, the compensation package of Harbor Homes' president has remained high in comparison to similarly sized New Hampshire nonprofit organizations, despite the organization's financial struggles.

This report offers a number of recommendations in order that Harbor Homes may address its financial and operational issues.

Harbor Homes Comments:

Harbor Homes does not agree with many of the assertions and conclusions of the Executive Summary below. However, as to most statements in this summary, it has deferred its responses to the applicable section in the body of the CTU draft report below:

III. SCOPE AND METHODOLOGY

The reviewers looked at the following categories of materials received from Harbor Homes:

- Fiscal year 2018 general ledger and trial balances for HHI
- Partial fiscal year 2019 general ledger and trial balances for HHI
- Bank account statements and reconciliations
- Selected loan agreements, promissory notes and mortgages
- Audited financial statements for fiscal years 2009 through 2018

- IRS Forms 990 for fiscal years 2009 through 2018
- Monthly financial statements presented to the board of directors
- Monthly financial statements presented to DHHS
- Contracts with DHHS
- Summaries of some payroll records
- Selected policies
- Organization chart
- Minutes of finance committee meetings

The reviewers also considered the following:

- Interviews with Harbor Homes financial staff

Harbor Homes Comments:

Only one such interview took place, on June 7 between two analysts from the CTU staff and Harbor Homes' CFO. The site visit lasted approximately 4.5 hours for the CTU staff to test journal entries. The actual interview of the CFO lasted about 30 minutes.

Charitable Trusts Unit Rejoinder:

In addition to the June 7, 2019 meeting with Harbor Homes' staff (which lasted 5.5 hours), CTU representatives met with Harbor Homes staff on January 8 and 15. There were also numerous telephone conversations, exchanges of email messages, and electronic exchange of documentation. An example of the extent of requests for information is found in Part VI, Section 1 of the report.

- Interviews with former staff
- Interviews with Harbor Homes' auditors, Melanson Heath & Company, PC (Melanson).

Harbor Homes Comments:

Only one such interview took place for about 2.5 hours on June 21, at the repeated request of Harbor Homes' attorneys. The auditors made themselves available to CTU staff for follow-up questions and document requests, but none were forthcoming.

Charitable Trusts Unit Rejoinder:

The financial records of Harbor Homes are in the custody of Harbor Homes staff.

- Materials from DHHS

Harbor Homes Comments:

Since only certain/select documentation (above), and not all relevant books and records of all Harbor Homes entities were reviewed by CTU staff, this has contributed too many misunderstandings and some inaccuracies in this draft report.

Charitable Trusts Unit Rejoinder:

The reviewers obtained documents as needed. See rejoinder in Part VI, Section 1 about the extent of CTU requests for information.

From this, the reviewers compiled data, compared records, calculated ratios, interviewed relevant persons, researched applicable standards, and reached conclusions. This report focuses on Harbor Homes' financial performance as well as its bookkeeping and financial reporting. It touches on operational issues as well, but does not delve into compliance with the terms of contracts between Harbor Homes and governmental agencies. Finally, this report does not examine the quality of the many health and human service programs that Harbor Homes sponsors.

Harbor Homes Comments:

We agree and believe it is important to note that the scope of this report is not intended to assess Harbor Homes' contract compliance or its programs and operational performance.

IV. THE ENTITIES AND THEIR ACTIVITIES

Harbor Homes is the commonly used term to refer to twelve different entities, some of which fall under the trade name Partnership for Successful Living. These entities are:

- Harbor Homes, Inc. (HHI) – the original and largest entity, operating over 70 programs, including those funded by DHHS, HUD, VA and HRSA, and founded in 1980.

- Harbor Homes II, Inc. (HUD II) – operates housing for the mentally ill, funded by HUD.

- Harbor Homes III, Inc. (HUD III) – operates housing for the mentally ill, funded by HUD.

- HH Ownership, Inc. (HHO) – operates housing for the mentally ill, funded by HUD.

- Partnership for Successful Living, Inc. – a trade name of HHI, incorporated in 2018 as a separate entity.

- Greater Nashua Council on Alcoholism d/b/a Keystone Hall (GNCA) – operates substance use disorder treatment and recovery programs.

- Healthy at Home, Inc. (HAH) – operates home healthcare services in the Nashua area.

- Welcoming Light, Inc. (WLI) – operates housing and services for senior citizens and the disabled, as well as other programs.

- Southern New Hampshire HIV/AIDS Task Force, Inc. (Task Force) – operates housing and services for those dealing with HIV/AIDS.

- Milford Regional Counseling, Inc. – operates a mental health counseling center.

- SARC Housing Needs Board, Inc. – operates Woodview Commons housing in Salem (recently acquired entity).

- Harbor Homes Plymouth, LLC – development of new housing project for veterans in Plymouth; it in turn owns 0.01% of Boulder Point, LLC.

Except for the two for-profit LLCs, the other Harbor Homes entities are separate nonprofit corporations. They are not legally connected through membership, which is a parent-subsidiary relationship available to nonprofits. While each entity is therefore technically independent, still the board of directors and top management for each entity are comprised of the same individuals.

As will be discussed later, the proliferation of nominally independent entities has contributed to Harbor Homes' management and financial challenges. The stated reason for this complexity is a HUD requirement that certain housing programs be operated within separate entities. That requirement has not been verified, and it does not explain why subsidiary entities would not be acceptable. Still, a number of Harbor Homes entities are not dependent upon HUD funding, while they contribute to the proliferation of nonprofit corporations.

Harbor Homes Comments:

Harbor Homes' organizational structure, with multiple legal entities all with the same governance and management team, is not unlike other similar non-profit entities that have related entities or are consolidated for reporting purposes. The consistency in governance and management contributes to the efficiency and effectiveness of the Harbor Homes entities collectively. There are certain legal and contractual restrictions that require some of the separate legal entities (seven of the ten non-profit entities and the two LLCs). Specifically, HUD guidelines (from 24 CFR 891, Supportive Housing for the Elderly and Persons with Disabilities) require separate entities for certain projects, as follows:

B. Formation of Owner Corporation.

The sponsor must legally form a single-purpose owner corporation in accordance with 24 CFR Section 891.205 (Section 202) and 24 CFR Section 891.305 (Section 811) of the regulations and Paragraph 3-66 of Section 202 Handbook 4571.3 REV-1 and Paragraph 3-64 of Section 811 Handbook 4571.2 before submitting the firm commitment application to the local HUD Office and proof of such action must be included in the firm commitment application. The owner corporation should be formed within 30 days of the notification of fund reservation so representatives of the owner corporation can attend the Project Planning Conference.

1. Capitalization of Owner Corporation. The sponsor must capitalize the owner in a sufficient amount to permit the owner to meet its obligations in connection with the project. This includes the minimum capital investment, start-up costs, excess land costs, ineligible amenities and excessive construction costs and any other funds the sponsor specifically commits to the project.

2. Tax Exempt Status.

(a) Section 202 owners must obtain a tax exemption ruling under either IRS Code 501(c)(3) or 501(c)(4).

(b) Section 811 owners must obtain a tax exemption ruling under IRS Code 501(c)(3) only.

The Harbor Homes Board is in the process of exploring ways to legally combine/merge some of the related entities with Harbor Homes. However, based on these HUD requirements none of the HUD entities can be changed or merged.

Charitable Trusts Unit Rejoinder:

The report notes that HUD may require separate entities for certain housing programs, and that is not disputed. The entities should still be legally connected through the use of a corporate member and establishment of supporting organization relationships for Internal Revenue Service purposes. As to the other organizations, consideration of combining some of them is warranted.

The proliferation of nominally independent entities makes it difficult to understand how those entities may lend money to each other without having made independent determinations that they are in the best interest of each entity. See Part VI, below on transfers. Without a parent/subsidiary type relationship, each board of directors (although comprised of the same people) must separately determine whether such a relationship is in the best interest of each corporation. The common board membership among all of the entities further requires a consideration of their duty of loyalty to each entity and associated conflicts of interest.

V. FINANCIAL PERFORMANCE

At first glance, Harbor Homes appears to be a financially stable, large charitable organization. Its fiscal year 2018 consolidated audit shows $31,000,000 in property and equipment after depreciation, unrestricted net assets of $7,000,000, and revenues of $38,000,000. But those top line numbers do not reveal significant financial problems below. Mr. Gilbert's report, attached, analyzes Harbor Homes' performance over time, addressing many aspects of its financial performance. This section will focus on Harbor Homes' liquidity as shown on its books of account.

Harbor Homes Comments:

Mr. Gilbert's report reviewed financial data for Harbor Homes from 2017 to 2019. Its only reference to earlier data is to "summary financial data regarding receivables, payables, and cash on hand for HH + fiscal years from 2010 through 2018." See Gilbert Assessment, p. 1, Sec. 2.0.

Charitable Trusts Unit Rejoinder:

Mr. Gilbert reviewed a wide variety of material not time limited to 2017 – 2019, including Forms 990, mortgage documents, promissory notes, income statements and balance sheets. See Section 2.0 of his report.

Harbor Homes' most obvious weakness is its lack of cash. The following chart derived from the HHI trial balance shows the balances in its cash accounts as of the end of fiscal years 2017 and 2018:

Client:	*HARBOR - Harbor Homes, Inc.*		
Engagement:	*FS18 - 2018 Harbor Homes, Inc. - Au*		
Period Ending:	*6/30/2018*		
Trial Balance:	*Trial balance - HHI consolidated*		
Workpaper:	*WTB-010 - Working trial balance - cc*		
Account	**Description**	**CONSOL 6/30/2018**	**1st PP-CONSOL 6/30/2017**
Group : [A]	**Cash and Investments**		
Subgroup : [A1]	**Cash**		
11-10001	Program NOW Account	(288,812.18)	(183,653.40)
11-10004	Insurance Payments	529.25	942.59
11-10005	Charles Schwab Money Market Fund	1,342.49	1,119.62
11-10010	Petty Cash	350.00	350.00
11-10013	HUD ACH Drawdowns	21.38	21.38
11-10016	HHI - Payroll Checking	5,394.36	118.48
11-10017	Cash: Debit Card	1,232.12	9,200.04
11-10018	Circles TD Checking	28,132.46	0.00
11-10022	SSVF ACH Deposits	24,214.07	1,334.27
11-10026	Cash: HVRP (DOL) Deposit Acct	70.26	69.09
11-10028	HHI-Unrestricted Reserves	73.83	1,078.72
11-10032	Partnership Donations Account	303.76	1,561.76
21-10201	HUD I Operating NOW Account	227.30	1,684.36
25-10251	HUD VI - Claremont Operating	2,048.00	900.83

Harbor Homes Comments:

The chart above presented by the CTU does not include all cash accounts, does not agree to the audited financial statements, and is not an accurate representation of available cash at the end of fiscal years 2017 and 2018. Certain accounts totaling $151,674.45 (highlighted in yellow in the following chart) were not included by the CTU for the presentation above.

Charitable Trusts Unit Rejoinder:

The chart above was not intended to show all accounts, just those that were cash stressed. While the chart below supplied by Harbor Homes includes additional accounts totaling $151,674.45, of that amount $95,953.08 is in a "restricted account". The total amount of cash remains negative.

Account	Description		CONSOL 6/30/2018
Group : [A]	Cash and Investments		
Subgroup : [A1]	Cash		
11-10001	Program NOW Account		(288,812.18)
11-10002	HHI - Paypal account		3,518.48
11-10004	Insurance Payments		529.25
11-10005	Charles Schwab Money Market Fund		1,342.49
11-10010	Petty Cash		350.00
11-10013	HUD ACH Drawdowns		21.38
11-10014	Restricted Cash		95,953.08
11-10016	HHI - Payroll Checking		5,394.36
11-10017	Cash: Debit Card		1,232.12
11-10018	Circles TD Checking		28,132.46
11-10021	Northeastern Blvd Operating		30,882.41
11-10022	SSVF ACH Deposits		24,214.07
11-10025	Pharmacy Checking		18,630.93
11-10026	Cash: HVRP (DOL) Deposit Acct		70.26
11-10027	Cash - Harbor Care Health and Welness Clinic		2,689.55
11-10028	HHI-Unrestricted Reserves		73.83
11-10032	Partnership Donations Account		303.76
21-10201	HUD I Operating NOW Account		227.30
25-10251	HUD VI - Claremont Operating		2,048.00
Subtotal [A1]	**Cash**		**(73,198.45)**

Harbor Homes Comments:

The new chart below includes all cash accounts, agrees to the audited financial statements, and is an accurate representation of available cash at the end of fiscal years 2017 and 2018. Note – A portion of the negative amounts were reclassified to accounts payable in fiscal year 2018 for financial statement presentation purposes, consistent with the requirements of accounting standards. At June 30, 2018 and 2017, total net unrestricted cash and investments were positive.

The negative amounts in the chart below derived from the HHI trial balance indicate checks written by HHI but not yet cashed. In order to minimize draws on the credit line, the Program NOW Account is designed to draw on the credit line when checks are cashed. At June 30, 2018 and 2017, amounts available on HHI's $1 million credit line were $738,254 and $379,928, respectively, which, based on how the Program NOW Account and the line of credit work, cover the checks written but not yet cashed.

Account	Description	CONSOL 6/30/2018	Financial Statement Reclassification	Financial Statement Amounts	1st PP-CONSOL 6/30/2017
Group [A]	**Cash and Investments**				
Subgroup [A1]	**Cash**				
11-10001	Program NOW Account	(288,812.18)	75,473.75	(213,338.43)	(183,653.40)
11-10002	HHI - Paypal account	3,518.48		3,518.48	2,385 23
11-10004	Insurance Payments	529.25		529.25	942 59
11-10005	Charles Schwab Money Market Fund	1,342.49		1,342.49	1,119 62
11-10010	Petty Cash	350.00		350.00	350 00
11-10013	HUD ACH Drawdowns	21.38		21.38	21 38
11-10014	Restricted Cash	95,953.08		95,953.08	242,180 33
11-10016	HHI - Payroll Checking	5,394.36		5,394.36	118.48
11-10017	Cash: Debit Card	1,232.12		1,232.12	9,200 04
11-10018	Circles TD Checking	28,132.46		28,132.46	0 00
11-10021	Northeastern Blvd Operating	30,882.41		30,882.41	195,895 08
11-10022	SSVF ACH Deposits	24,214.07		24,214.07	1,334 27
11-10025	Pharmacy Checking	18,630.93		18,630.93	25,431.16
11-10026	Cash: HVRP (DOL) Deposit Acct	70.26		70.26	69 09
11-10027	Cash - Harbor Care Health and Welness	2,689.55		2,689.55	19,616.77
11-10028	HHI-Unrestricted Reserves	73.83		73.83	1,078.72
11-10032	Partnership Donations Account	303.76		303.76	1,561.76
21-10201	HUD I Operating NOW Account	227.30		227.30	1,684 36
25-10251	HUD VI - Claremont Operating	2,048.00		2,048.00	900 83
Subtotal [A1]	**Cash**	**(73,198.45)**	**75,473.75**	**2,275.30**	**320,236.31**
Subgroup [A2]	**Investments**				
11-10007	Charles Schwab Stocks	19,425.90		19,425.90	14,714.46
11-10008	Other Stocks	0.00		0.00	316,882 67
11-11110	Investments-Beneficial Interest	173,305.11		173,305.11	161,945 98
Subtotal [A2]	**Investments**	**192,731.01**	**0.00**	**192,731.01**	**493,543.11**
Group [L]	**Accounts Payable**				
Subgroup None					
11-20001	Accounts Payable	(652,148.94)	(75,473.75)	(727,622.69)	(703,760.76)
11-20003	Accounts Payable - Other	(372.07)		(372.07)	(250,000 00)
11-20010	Accounts Payable - Insurance Program	(802.82)		(802.82)	0 00
21-20001	Accounts Payable	(1,169.82)		(1,169.82)	(1,798.40)
25-20001	Accounts Payable	(1,258.93)		(1,258.93)	(794 31)
Total [L]	**Accounts Payable**	**(655,752.58)**	**(75,473.75)**	**(731,226.33)**	**(956,353.47)**

Charitable Trusts Unit Rejoinder:

The comment above is consistent with the report's conclusions about Harbor Homes' cash situation and confirms that the organization actually wrote checks for which there was no supporting cash balance. Note that the above amounts do not include the credit lines for GNCA and HAH.

The negative amounts above indicate accounts with outstanding checks that have been written but not yet cashed. This lack of cash leaves Harbor Homes with little in reserve to pay its day to day expenses, including payroll.

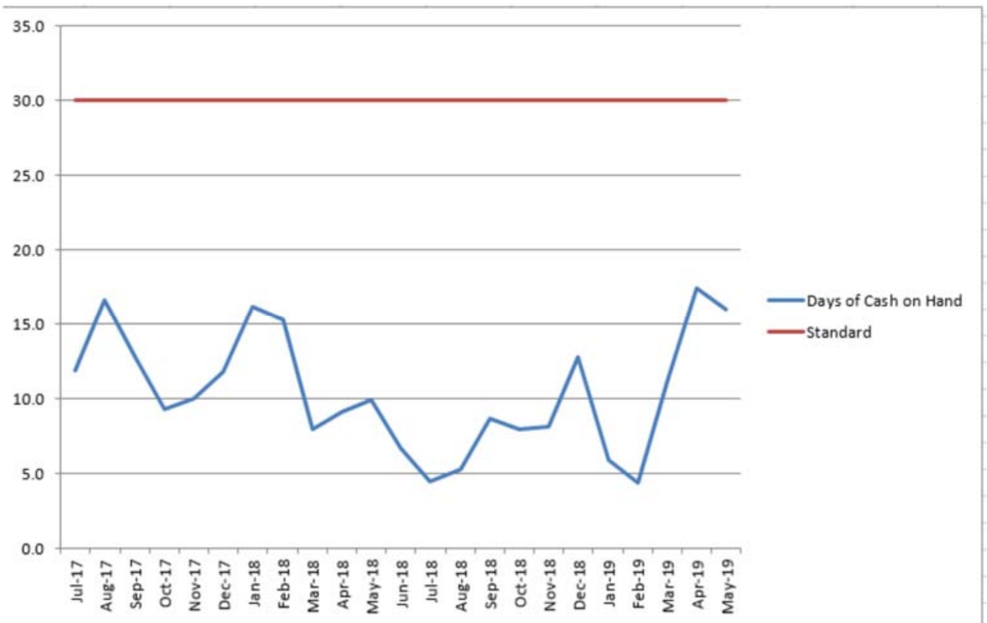
Harbor Homes Comments:

As explained previously, the negative balance in the Program NOW Account at June 30, 2018 represents checks written by HHI but not yet cashed, which were covered by the line of credit when presented for payment.

Charitable Trusts Unit Rejoinder:

The above comment is consistent with the report, and represents an unsustainable business model.

Cash levels are typically measured by determining the number of days that an organization can operate relying solely on its cash accounts. While Harbor Homes' number of days of cash on hand has improved in recent months, it still trails the DHHS expected minimum of 30 days. The following shows the days of cash at each month end in fiscal years 2018 and 2019 to date:



Given the proliferation of bank accounts and the lack of cash, it is not surprising that Harbor Homes sometimes got caught "playing the float" by issuing checks with insufficient funds in the associated bank account.

Harbor Homes Comments:

As explained previously, the negative balance in the Program NOW Account at June 30, 2018 represents checks written by HHI but not yet cashed, which were covered by the line of credit when presented for payment.

Charitable Trusts Unit Rejoinder:

The above comment is consistent with the report, and represents an unsustainable business model.

In fiscal year 2018, Harbor Homes incurred fees for 424 overdrafts of checks written on its accounts. At $35 per fee, it amounted to $14,840. Harbor Homes hoped that there would be sufficient funds to cover the check at a future date, and had the comfort to know that the bank would cover the check in any event, but at the cost of an overdraft fee. The Harbor Homes chief financial officer reported that shortfalls occurred when Harbor Homes had not yet received expected payment from the State of New Hampshire on one of its contracts.

Harbor Homes Comments:

As explained to CTU staff, Harbor Homes, Inc. had an agreement with its lender to temporarily cover periodic cash flow issues while borrowing was in process. There are multiple emails between Harbor Homes, Inc. and the bank that document this agreement, as well as the regular communications during this time related to cash balances. These can be provided upon request. The fees noted above were incurred during a specific period of months while Harbor Homes was in the process of securing financing for a specific project where it had been asked by the N.H. Housing Finance Authority on an expedited basis to replace the failed developer who had been trying to complete the Boulder Point project for more than 5 years. Specifically, in June 2018 Harbor Homes paid $500,000 for the land for the Boulder Point project. Because of the cash drain related to the project, cash was at a low point during this time. Subsequent to securing financing, there were improvements to available cash.

Charitable Trusts Unit Rejoinder:

The above comment is consistent with the report findings, and represents an unsustainable business model. Harbor Homes wrote checks with the understanding that an overdraft fee would apply even when there was an available line of credit.

These low days of cash on hand, as well as the overdrafts, appear despite Harbor Homes' extensive use of lines of credit. The following chart shows month end balances on its four lines of credit (two are combined for HHI). There does not appear to be a recent period in which the lines of credit have been paid down for a period of time, meaning that these lines of credit are de facto term loans. Mr. Gilbert discusses in greater detail the terms of and the use of the lines of credit.

HARBOR HOMES & Affiliates
Line of Credit - Current Balance

	Jul '18	Aug '18	Sept '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19
Harbor Homes	954,303	1,002,307	1,240,276	634,919	864,429	795,078	870,699	896,621	1,001,387
G.N.C.A.	348,779	338,779	338,779	338,779	338,779	318,779	126,847	293,779	273,779
Healthy at Home	229,436	229,436	229,436	226,936	225,436	225,436	220,436	220,436	220,436
TOTALS	1,532,518	1,570,521	1,808,491	1,200,633	1,428,644	1,339,293	1,217,982	1,410,835	1,495,602

Harbor Homes Comments:

Harbor Homes, similar to other primarily reimbursement-based / grant-funded organizations, must incur and pay expenses before receiving reimbursement from their payor/grantor agencies. This requirement is a significant cashflow drain, and as such, requires reliance on lines of credit.

Harbor Homes, Inc. is most affected by the use of the reimbursement-basis model described above. Its current $1 million operating line of credit (LOC) is sometimes not sufficient to cover the volatility of cash receipts during some months that result from delays in payments from grantors and funders.

Debt covenants on Harbor Homes, Inc.'s $1 million operating LOC require that the there be a balance of $600,000 or less for 30 consistent days. Harbor Homes, Inc.'s rent LOC requires a zero balance each month for 24 hours. Harbor Homes, Inc. is in compliance with these requirements.

As of June 30, 2019, operating line of credit balances are as follows:

Harbor Homes, Inc.	$423,170
Healthy at Home	$200,000
Greater Nashua	$83,779

Charitable Trusts Unit Rejoinder:

In its comment, Harbor Homes is therefore confirming that the lines of credit have in effect become term loans.

In his report, Mr. Gilbert details an additional hazard to Harbor Homes caused by its tenuous cash situation: an increased risk of default on one or more of its non-deferred loans. That in turn could lead to cascading defaults on Harbor Homes' many deferred loans. In reporting its financial ratios, Harbor Homes excludes deferred mortgages from its debt analysis, and that may understate the true risk.

Harbor Homes Comments:

Contrary to Mr. Gilbert's assertions, the deferred loans do not present an understated risk to Harbor Homes due to 1) the non-recourse nature of the NHHFA loans, 2) the subordinated nature of the mortgages securing the loans, 3) the limited cross-default provisions built into the loans, 4) the favorable repayment terms of the loans, and 5) the separate entities used for particular projects.

First, each of the deferred loans from NHHFA (other than the $50,000 loan related to the 3-5½ Charles Street property) contains a non-recourse provision which prevents NHHFA from seeking repayment from the borrower (whether Harbor Homes or GNCA) in the event that there is a deficiency owed to NHHFA after a sale or foreclosure of the property which is collateral for that specific loan. In other words, NHHFA cannot seek "recourse" against the borrower and only has "recourse" against the property which serves as collateral. Mr. Gilbert's analysis fails to recognize the significant protection afforded Harbor Homes and GNCA by the non-recourse provisions in the NHHFA loans.

Charitable Trusts Unit Rejoinder:

That a loan is non-recourse upon foreclosure does not eliminate the risk of cascading defaults, since for instance a default on one NHHFA or FHLB mortgage loan triggers defaults on any other loans outstanding on that same property. Also, the loss of use of one property means a loss of the associated revenue stream.

Harbor Homes Comments:

Second, the discussion between CTU and representatives of Harbor Homes focused on the properties which have both a non-deferred loan (i.e. conventional first mortgage loan from a commercial lender) and one or more deferred loans (i.e. junior, subordinated loan from a government agency). Each of the deferred loans is subordinate to the non-deferred loan on the particular property, either by its terms or by virtue of the mortgage being recorded subsequent to the non-deferred mortgage. As a result, if the conventional mortgage lender, being in first position, were to foreclose its loan, the result would be that the junior deferred mortgages would be wiped out, leaving the deferred mortgage lender with no collateral from which to seek repayment of the deferred loan. See NH RSA 479:26, III.

Charitable Trusts Unit Rejoinder:

This statement is an admission that the multiple mortgage loans on many of the Harbor Homes properties means that the debt exceeds the market value, which is financially unsound. Also, the NHHFA promissory notes allow the holder to collect based upon a variety of non-monetary defaults, which could put a significant and unsustainable short term demand for cash.

Harbor Homes Comments:

Third, Mr. Gilbert's table of deferred loans on page 10 of his Preliminary Assessment identifies only the NHHFA loans as having cross-default provisions, however, it fails to mention that those provisions are limited to other NHHFA loans. Without a cross-default provision, the default on one loan does not automatically result in a default on another loan, significantly reducing the risk of "cascading defaults".

Charitable Trusts Rejoinder:

The cross-default provisions are not so limited. For instance, the NHHFA loan for Somerville Street requires compliance with the terms of a loan from Merrimack County Savings Bank in the amount of $2.4 million as well as the requirements of other lenders for the project.

Harbor Homes Comments:

Fourth, the repayment terms of the deferred loans serve to reduce risk to Harbor Homes. The repayment terms of the deferred loans differ from lender to lender, however, in general, no interest is charged and repayment of principal is only required at the end of the term (typically 15 – 30 years), barring an earlier default. It is generally understood that at the end of the deferred loan period, the principal balance is forgiven. That has always been the case for Harbor Homes in its almost 40 year history. The FHLBB loans have a 15 year term and provide for automatic cancellation at the end of the term barring failure to comply with the restrictions on the use of the property. Some of the deferred loans require a payment of "surplus cash" which is defined essentially as any cash left over after all expenses, obligations, capital items, permitted distributions and reserves have been taken into account. Accordingly, the surplus cash payment requirements do not put financial pressure on a project.

Charitable Trusts Rejoinder:

The unwritten loan forgiveness understanding is available only at the end of the term of a loan. This forgiveness does not apply in the event of a default during the loan's term.

Harbor Homes Comments:

Fifth and finally, ownership of the 615 Amherst Street project, the Strawberry Bank project, and the Boulder Point project by various affiliates isolates the liabilities related to those projects and protects and insulates Harbor Homes from the risk of defaults on the loans of those entities. Boulder Point, LLC in particular, is insulated due to its remoteness from Harbor Homes, which only indirectly owns a .01% interest in the LLC which owns the property. This structure, approved or required by the particular lenders, serves an important business purpose in isolating risk in the organizational structure.

Charitable Trusts Unit Rejoinder:

This report did not focus on the Boulder Point, LLC project.

Mr. Gilbert has made specific recommendations to address the poor cash situation. Currently, Harbor Homes is being resourceful in meeting its current obligations despite its cash problems. So long as the organizations retain their inventory of government contracts, Harbor Homes likely can keep their operations going in the near term. CTU and Melanson recently opined that a four month extension of Harbor Homes' contracts with DHHS would likely offer Harbor Homes four to six months of continued viability.

Harbor Homes Comments:

In doing so, Melanson did not opine that Harbor Homes did not have more than four to six months of continued viability. It simply was asked to opine on Harbor Homes going concern viability for that four to six month period only.

Charitable Trusts Unit Rejoinder:

Agreed, and the report does not state otherwise

VI. BOOKKEEPING

The resourcefulness of Harbor Homes in keeping its operations moving forward under the circumstances is demonstrated in its use of funds. Having created a web of organizations and programs, Harbor Homes employs an improvised operational structure that moves funds as needed and when needed. This becomes readily apparent upon examining how Harbor Homes handles its bookkeeping. Given the proliferation of entities and programs, accurate bookkeeping is both essential and a challenge.

Harbor Homes Comments:

The statements above are unsubstantiated, and appear to be based on inaccurate/ incomplete information or a misinterpretation.

Charitable Trusts Unit Rejoinder:

This is an introductory paragraph, and is supported by the material that follows.

Harbor Homes maintains separate checking accounts for each of its entities, yet also uses HHI's central bank accounts for activities of the other entities.

Harbor Homes Comments:

Instead of using separate checking accounts for each entity to deposit and pay shared costs, Harbor Homes uses a centralized bank account, in order to streamline accounting processes for certain receipts and disbursements.

Examples are property, liability, and umbrella insurance policies as well as workers' compensation insurance. Economy of scale is the main objective, with significant savings by consolidating expenses paid through one entity and then charged to the related entities through the due to/from intercompany accounts.

Charitable Trusts Unit Rejoinder:

The chart in Part V of this report shows that Harbor Homes employed checking accounts for different entities. There is no dispute that much of the financial activity of the enterprise took place through an HHI account, but sometimes other bank accounts were used. For instance, the $70,000 loan repayment referred to in Subsection 1, below, was made by an actual HHI check, No. 208244, payable to GNCA.

Entities previously used different accounting software, including QuickBooks, as late as 2018, but now all of Harbor Homes use Abila MIP Fund Accounting. Still, Harbor Homes maintains five separate financial databases for its entities (one database is used for five of the entities).

Harbor Homes Comments:

The statement above does not appear to support any specific assertion. There are separate databases due to the limitations of the accounting software. Specifically, in order to restrict employee access to certain entities only, separate databases must be utilized.

Charitable Trusts Unit Rejoinder:

Restrictions on employee access should be able to be created for different modules of a single database.

Until fiscal year 2018, Melanson reported separately the audited financial statements for the Harbor Homes entities except for Healthy at Home, audited by Berry Dunn McNeil & Parker, LLC. This made it impossible to understand the financial status of Harbor Homes as a whole. For the first time in 2018, Melanson prepared consolidated audited statements, and also prepared separate audited statements for several of the Harbor Homes entities. Melanson had urged Harbor Homes ten years before to permit the creation of consolidated financial statements.

Harbor Homes Comments:

Melanson did discuss consolidating financials for many years with management. The decision not to consolidate was based on discussion with financial institutions and some funders. Each entity had a uniqueness in services, revenue streams, and clientele. After discussion, Melanson agreed that separate financials were acceptable based on documented reasons supporting that decision. The banks did request individual audited financials for related entities as well as the consolidated financials for FY18, the first year of consolidated statements.

Audited financial statements for all entities have always been available, including disclosure of related entity transactions. This readily-available information can be used to understand the financial status of Harbor Homes as a whole. Consolidated financial statements simply facilitate that understanding by providing a summary of all entities in one report.

Charitable Trusts Unit Rejoinder:

As stated in this report, the absence of consolidated financial reports limited the ability of outside entities to understand the financial status of Harbor Homes as a whole.

1. Intercompany Transactions

The proliferation of entities, programs, bank accounts, and databases should come with strict observance of accounting standards for intercompany transactions. In recognition of that standard, Melanson reported in its audited financial statements for six of the entities that there is a “contract” for maintenance and landscaping services with HHI. Yet at a meeting on June 21, 2019, Melanson reported that there are no written contracts for services among the entities. The 2018 audited financial statements of HAH and GNCA reflect that HHI provides those organizations with services, but there are no written contracts. In the absence of contracts, or even memoranda, there can be no assurance that a particular intercompany or inter-program charge is proper.

Harbor Homes Comments:

Maintenance, landscaping, and cleaning services were provided by Harbor Homes to the other entities by a shared centralized services department. In accordance with ASU 2013-06 FASB ASC 958, *Services Received from Personnel of NFP Affiliates*, the services provided were charged at cost, including direct personnel costs incurred in the performance of the services. There are written contracts for certain services, as well as written lease agreements with GNCA and the Southern N.H. Aids Task Force (which are disclosed in their stand-alone fiscal year 2018 financial statements).

Some of the HUD properties have cleaning and maintenance contracts currently in place. The other related entities served by the centralized services department are informed of the rates and changes via email, usually every new fiscal year. There is a Memorandum of Understanding between Harbor Homes and GNCA for FY15 and FY17 for interchange of respite and medical detox services.

Charitable Trusts Unit Rejoinder:

Melanson reported that there were no such contracts at the June 21, 2019 meeting.

Moreover, according to the AICPA Committee on Accounting Procedure, *Consolidated Financial Statements*, Accounting Research Bulletin (ARB) No. 51, as amended, "*[i]n the preparation of consolidated statements, intercompany balances and transactions should be eliminated.* This includes intercompany open account balances, security holdings, sales and purchases, interest, dividends, etc. As consolidated statements are based on the assumption that they represent the financial position and operating results of a single business enterprise, such statements should not include gain or loss on transactions among the companies in the group. Accordingly, any intercompany profit or loss on assets remaining within the group should be eliminated; the concept usually applied for this purpose is gross profit or loss." (emphasis added).

Harbor Homes Comments:

Accounting Research Bulletins were documents issued by the Committee on Accounting Procedure between 1938 and 1959 on various accounting problems. They are AICPA copyrighted standards that have been superseded by *FASB Accounting Standards Codification* Topic 105, Generally Accepted Accounting Principles.

The FASB Accounting Standards Codification™ is the source of authoritative Generally Accepted Accounting Principles (GAAP), other than those issued by the Securities and Exchange Commission, recognized by the FASB to be applied by nongovernmental entities. The Accounting Standards Codification is effective for interim and annual periods ending after September 15, 2009. All previous level (a)-(d) US GAAP standards issued by a standard-setter are superseded. Level (a)-(d) US GAAP refers to the previous accounting hierarchy. All other accounting literature not included in the Accounting Standards Codification will be considered nonauthoritative.

FASB Accounting Standards Updates **(2009 to present)**
As of July 1, 2009, changes to the FASB Accounting Standards Codification™ are communicated through issuance of an Accounting Standards Update (Update). An Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification has been amended. It also provides other information to help a user of GAAP understand how and why GAAP is changed and when the changes are effective.

Charitable Trusts Unit Rejoinder:

The later FASB standards cited in the comment apply only to for-profit entities. While FAS No. 71 deleted the last sentence from paragraph 6 of ARB No. 51 (cited above in the report), Statement of FAS No. 160 (December 2007) clarifies that it "applies to all entities that prepare financial standards except for not-non-profit organizations. Not-for-profit organizations shall continue to apply the guidance in Accounting Research Bulletin No. 51, Consolidated Financial Statements, before the amendments made by this Statement…" In other words, ARB No. 51 still applies to organizations like HH, and intercompany balances and transactions should be eliminated.

Harbor Homes Comments:

Elimination entries are only appropriate if financial statements are being consolidated, which only occurred for FYE June 30, 2018 for Harbor Homes. Accordingly, eliminations for prior years would be inappropriate.

As discussed with the CTU by Melanson, the inter-entity amounts that were not eliminated in the fiscal year 2018 consolidated financial statements were both individually and collectively immaterial, have no impact on net operating results, and would not materially affect the decisions of the users of the financial statements.

Charitable Trusts Unit Rejoinder:

Agreed that, if properly recorded, intercompany transactions have no impact on net operating results of the consolidated group. However, the lack of intercompany eliminations means there is no transparency as to the financial situation of each entity. There are many due to/due from entries that were not properly eliminated among HHI, HHII, HHIII, HHO, HAH, WLI, GNCA, TF and MRCS for fiscal years 2014 through 2018.

Proper documentation is important with respect to intercompany transactions because Harbor Homes' income derives largely from government contracts for specific programs. The funds received should be used to support the program associated with that contract. While it may be appropriate for one Harbor Homes entity to perform a service for another, and get paid for it, good record keeping is essential to verify that funds are not accidentally or intentionally misused.

Harbor Homes Comments:

The comment "funds received should be used to support the program associated with that contract" reflects a significant misunderstanding. All services are performed on a <u>reimbursement basis</u> so money received for past services <u>do not have to be</u> segregated within or used for the same program. If there are no subsequent expenses to be paid, the money received is unrestricted and can be used for any purpose consistent with Harbor Homes' charitable mission.

Charitable Trusts Unit Rejoinder:

Much of Harbor Homes' revenue comes from state and federal contracts that restrict the use of that revenue. Moreover, basic business principles dictate that an entity should be able to identify expenditures and revenues by cost center.

For federally funded programs, 2 CFR 200.302 (3) (b) states: "The financial management system of each non-Federal entity must provide for the following […] Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."

DHHS contracts, while paid on a reimbursement basis, have approved budgets for salary and benefits, current expenses, and other programmatic costs. Costs are reimbursed based on actual expenditures that have been incurred for the individual contracted program. These expenses must be appropriate and recorded as allocated to the contracted program. When all incurred costs have been paid, any remaining unspent funds will lapse and not be given to the Contractor. These funds are not intended to become general revenue to the organization. For example, as noted in the DHHS Site Review of July 2018, Bridge Subsidy program revenue was applied to bonuses for individuals who worked on additional (non-Bridge Subsidy) programs. Upon review and recommendation by DHHS, Harbor Homes reclassified the expenditures for two of the three employees, thereby agreeing that the revenue was not general revenue which could be applied at the organization's discretion.

Harbor Homes Comments:

Management is responsible for the preparation and fair presentation of the 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. These responsibilities include proper "record keeping" through the use of an effective accounting system and supporting documentation for all transactions.

The Board, management, accounting systems, and internal controls for all of the Harbor Homes entities, including Healthy at home, are the same. Melanson Heath audits all entities except for Healthy at Home, which is audited by Berry Dunn. Both audit firms, Melanson Heath and Berry Dunn, reported no deficiencies in internal control considered to be material weaknesses in fiscal years 2010 through 2018, and no management letters were issued.

Charitable Trusts Unit Rejoinder:

As stated above, Melanson affirmatively disclaimed any opinion on the effectiveness of Harbor Homes' internal controls and noted that material weaknesses arising from deficiencies in internal controls may exist that were not identified

Interviews with former Harbor Homes management staff reported that:

- Funds were moved between programs and entities as needed to meet cash needs.

- Some billing for staff time got allocated among programs and entities to match available funding, whether or not it meshed with the staff person's actual duties.

- Bonuses would be awarded to staff based on available program surpluses.

- Blanket charges were assessed for services – like information technology – whether or not there was equipment or services provided.

Given the record keeping available, the reviewers could not locate financial records that could confirm specific instances of this behavior.

Harbor Homes Comments:

The statements above are based on interviews with unidentified former staff. Had the CTU made additional inquiries, reviewed complete financial information for all entities included in the fiscal year 2018 consolidated financial statements, and conducted its review in accordance with recognized auditing standards, the CTU would have been provided with the appropriate supporting documentation to disprove these unsupported claims.

The inability to trace particular transactions between entities is compounded by the large number of instances in which eliminations did not appear in Harbor Homes' financial statements. In an elimination, an income item in one entity should cancel out an expense item in another. Given the complexity of the organization and the volume of transactions among entities, one would expect to see high numbers of completed eliminations. That was not the case. By way of example, eliminations were not found for the following 2018 fiscal year intercompany expenses due to HHI:

Rent:

- Task Force $64,513

- Healthy at Home $51,108

- GNCA $56,436 ($27,383 shown as paid to HHI) *

Harbor Homes Comments:

* This amount is inaccurate. Specially, the entire $56,436 was paid
As communicated to the CTU by Melanson, the rents above individually and collectively are immaterial to the fiscal year 2018 consolidated financial statements, have no impact on operating results, and would not materially affect the decisions of the users of the financial statements.

Charitable Trusts Unit Rejoinder:

This is an admission that the eliminations were not made, as required. Moreover the GNCA rent amount is correct as written in the report. The audited financial statements of GNCA for fiscal year ending June 30, 2018 states at note 13: "The Organization rents space from Harbor Homes, Inc., a related organization. Rent expense for the year under this agreement was $27,383."

Maintenance, landscaping and cleaning services:

- HUD II $28,384
- HUD III $21,606
- MRCS $1,415
- GNCA $21,377
- HHO $1,491

Harbor Homes Comments:

As previously discussed, maintenance, landscaping, and cleaning services were provided as noted above by a shared centralized services department. In accordance with ASU 2013-06 FASB ASC 958, *Services Received from Personnel of NFP Affiliates*, the services provided were charged at cost, including direct personnel costs incurred in the performance of the services. As communicated to the CTU by Melanson, these amounts individually and collectively are immaterial to the fiscal year 2018 financial statements, have no impact on operating results, and would not materially affect the decisions of the users of the financial statements.

Charitable Trusts Unit Rejoinder:

This is an admission that the eliminations were not made, as required.

Furthermore, the general ledger shows that Harbor Homes moved cash between the bank accounts of entities when needed. Those transactions are not recorded consistently. For instance, Task Force lent a total of $80,000 to HHI during fiscal year 2018. It was recorded as a "loan" on the books of Task Force and a "transfer" on the books of HHI. HHI made a $6,000 "transfer" to HAH, recorded as a "loan" on the HAH books. HHI repaid a $70,000 "loan" from GNCA, but no corresponding transaction could be located on the GNCA due to/due from HHI accounts. There is no written documentation to support any of these loans.

Harbor Homes Comments:

Entry descriptions themselves sometimes do not provide for a detailed explanation. Instead, the underlying supporting documentation for each entry provides this level of detail. Regardless of the terminology used in the entry description, the related supporting documentation is available and provides adequate documentation of each transaction.

Periodically, cash was moved between entities temporarily. These transactions were properly authorized and supported. Instead of using separate checking accounts for each entity to deposit and pay shared costs, Harbor Homes uses a centralized bank account, in order to streamline accounting processes for certain receipts and disbursements. As a result, there are receipts and disbursements of the other entities and programs that are processed through and held in the central account. At any point in time, Harbor Homes' main operating account could reflect a balance owed to or from the other entities. The corresponding due to/from balances account for these amounts, as well as any temporary cash movements between entities as noted above.

Had CTU made additional inquiries related to the above, written documentation would have been provided to support that some of these entries do not represent actual movements of cash between bank accounts. Further, CTU staff would have been provided with the corresponding transaction and support from GNCA's books.

Charitable Trusts Unit Rejoinder:

Agreed that cash was moved between entities temporarily. The due to and due from balances for a specific transaction did not always separately appear on the general ledger of each entity, as noted in the $70,000 repayment by HHI of a $70,000 "loan" from GNCA. Interestingly, that repayment was made by an actual HHI check, No. 208244, payable to GNCA. The source supporting documentation was not found, and there were no loan agreements, according to Melanson.

CTU made several requests for a list of intercompany and inter-program transactions (including loans, revenues and expenses) requesting details as to the entities/programs involved, the amounts and description of the transactions. CTU requested information relating to $819,595 due to/due from transactions in an email message dated February 11, 2019. CTU requested the detail of transactions between related organizations by email message dated April 5 and 8, 2019. While CTU received a workbook from HHI on April 10, 2019 containing 11,800 entries totaling more than $35,565,000, there was no supporting documentation. CTU verbally requested documentation supporting the due to/due from accounts on June 7, 2019. The response from HH staff was that while one side of a transaction may be tracked, the other side is not tracked, and so were not available to review.

This informality of intercompany and inter-program transfers means that Harbor Homes accounting staff can move funds as needed without set agreements.

Harbor Homes Comments:

The statement above is inaccurate. It is a misinterpretation by CTU staff based on their failure to request all relevant documentation because they did not engage with Harbor Homes staff or Melanson in a review planning meeting and necessary follow up.

Charitable Trusts Unit Rejoinder:

As stated in the rejoinder above, the reviewers conducted extensive questioning, both in person and by email messages, and requested follow-up documentation.

2. Miscellaneous Transactions

The extensive use of "miscellaneous transactions" presented another difficulty in tracing particular income and expense items. It also reflects the willingness of Harbor Homes accounting staff to move resources whenever deemed necessary.

The general ledger for fiscal year 2018 revealed 17,002 line items recorded as "miscellaneous transactions". Collectively the sum of these back and forth transactions in fiscal year 2018 amounted to $226,149,479.84 for an enterprise with revenues of less than $40 million. Many of these transactions are noted as "to correct funding/reclass funding source", without backup information. Some are to cash accounts without corresponding activity on a bank statement for that entity. A sample page from the November 2017 general ledger showing these miscellaneous transactions (in bold) appears below:

GL C	GL Title	Doc Number	Description	Session ID	Effect	Doc D	De	Cre	Tran Sr	Fund Code
10022	SSVF ACH Deposits				Current Balance		1,336.77			11
10022	SSVF ACH Deposits	GRANTPAY-1	ACH GRANT PAYMENT 11/0	ARCACHGRANTP/	11/3/2017	11/3/2017	24,620.00		ARC	11
10022	SSVF ACH Deposits	1284	SSVF DRAWDOWN	APM00933	11/6/2017	11/6/2017		24,620.00	CD	11
10022	SSVF ACH Deposits	1285	SSVF DRAWDOWN	APM00935	11/8/2017	11/8/2017		7,840.00	CD	11
10022	SSVF ACH Deposits	GRANTPAY-1	ACH GRANT PAYMENT 11/0	ARCACHGRANTP/	11/8/2017	11/8/2017	7,840.00		ARC	11
10022	SSVF ACH Deposits	GRANTPAY-1	ACH GRANT PAYMENT 11/1	ARCACHGRANTP/	11/15/2017	11/15/2017	15,136.00		ARC	11
10022	SSVF ACH Deposits	GRANTPAY-2	ACH GRANT PAYMENT 11/1	ARCACHGRANTP/	11/15/2017	11/15/2017	14,414.00		ARC	11
10022	SSVF ACH Deposits	1286	SSVF DRAWDOWN	APM00936	11/15/2017	11/15/2017		29,550.00	CD	11
10022	SSVF ACH Deposits	1287	FUNDS FROM GNCA	APM00936	11/15/2017	11/15/2017		50,000.00	CD	11
10022	SSVF ACH Deposits	CT17/11-23	Xfer from Keystone Op to Pl	JV171130 CT-01	11/15/2017	11/15/2017	50,000.00		JV	11
10022	SSVF ACH Deposits	1289	SSVF DRAWDOWN	APM00939	11/22/2017	11/22/2017		29,006.00	CD	11
10022	SSVF ACH Deposits	GRANTPAY-2	ACH GRANT PAYMENTS 11/	ARCACHGRANTP/	11/22/2017	11/22/2017	29,006.00		ARC	11
10022	SSVF ACH Deposits	MISC17/11-85	To Record Interest	JV171130 MISC-1	11/30/2017	11/30/2017	0.41		JV	11
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**5,163,352.72**		**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**101,461.00**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**1,829,822.00**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**784,678.00**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**6,563.00**		**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**12.01**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**98,165.50**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**2,355,777.21**	**JV**	**11**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**220,144.23**		**JV**	**15**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**		**252,022.00**	**JV**	**15**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**41.83**		**JV**	**15**
10022	**SSVF ACH Deposits**	**MISC17/11-95**	**to correct funding sourc**	**JV171130 MISC-**	**11/30/2017**	**11/30/2017**	**31,835.94**		**JV**	**15**

Harbor Homes Comments:

The statement above is misleading. It is a misinterpretation by CTU staff based on incomplete documentation, and was explained to the CTU by Harbor Homes and Melanson. CTU staff was provided with support and documented explanations to understand the purpose of many of these entries.

Charitable Trusts Unit Rejoinder:

Regardless of the purpose of an individual entry, general ledger bank account entries should not be used for any other purpose than to record bank activity. They should not include pass through activity or a suspense account.

While it may be appropriate to have some financial activity not directly associated with a specific program or entity, there should be a single generic cost code. At Harbor Homes, there are at least two codes used for these transactions: “default” and “no cost center”, and no explanation of when either of these should be used. In addition to the opacity in the use of miscellaneous transactions as a descriptor, the sheer volume of these journal entries is troubling.

Harbor Homes Comments:

The accounting software requires revenue and expense account numbers to include a cost code (or program) in order to post an entry. No cost center or code is required for balance sheet accounts. In order to timely post certain transactions to the general ledger, a default 999 code is sometimes used to post revenue and expenses temporarily. Before the books are closed each month, these temporary postings are reclassified to a specific program. Balance sheet items may post to “no cost center” as they may relate to multiple costs centers.

Charitable Trusts Unit Rejoinder:

The issue is the amount of these miscellaneous entries. Some journal vouchers contain over 350 lines of miscellaneous transactions. The fiscal year 2018 total, by month, of miscellaneous transactions is as follows:

JV-MISC entries			
Fiscal Year End June 30, 2018			AMOUNT
Jul-17	1,404		$ 4,021,763.23
Aug-17	1,286		3,757,334.21
Sep-17	1,365		4,325,402.92
Oct-17	1,823		7,853,200.48
Nov-17	3,485		161,272,779.48
Dec-17	1,427		7,604,190.28
Jan-18	1,620		6,926,401.07
Feb-18	1,244		5,744,290.00
Mar-18	1,057		11,961,477.25
Apr-18	646		4,045,338.90
May-18	624		3,158,579.90
Jun-18	1,021		5,478,722.12
FY18 Total	**17,002**	**Misc Trans**	**$226,149,479.84**

VII. FINANCIAL REPORTING

The Harbor Homes entities have a common board of directors. The fiduciary duty of care requires that they be familiar with the financial standing of the organizations, review monthly reports, create budgets, compare budgets to actual results, review audits and consult with the auditor. A nonprofit board may delegate some of its tasks to a finance committee that works closely with financial staff.

Harbor Homes Comments:

Harbor Homes is in general agreement with and conducts its operations consistent with this statement.

In a large enterprise, the finance committee or the treasurer cannot be expected to spot check the bank statements or the general ledger. In that case, the board of directors should have adopted adequate policies governing accounting operations and monitored by the auditor, such that the board and finance committee may rely upon the monthly internal reports prepared by staff. This protocol works only if all financial controls are in place and are observed. Only then will the board and finance committee receive timely and accurate information.

Moreover, because Harbor Homes receives about $28 million of its funding from programs administered by DHHS, HHI and GNCA are expected to provide DHHS with monthly financial statements and a variety of financial ratios. DHHS has specific expectations for these ratios. The failure to meet those expectations may result in a corrective action plan, or possible non-renewal of the contract.

1. Reports to DHHS and Finance Committee

There are a number of instances in which the finance committee and/or DHHS received monthly information different from that appearing on Harbor Homes' internal financial records. For instance while the HHI 2018 fiscal year end trial balance total revenue equaled the income statement revenue figure presented to DHHS, individual line items varied widely, as shown here:

BOD 6/30/2018		DHHS State Ratios 6/30/2018	YTD Actual
Net Revenues		Revenues	
Federal Grants	8,616,334.54	Medicaid	3,327,267.08
State and Local Grants	9,705,323.99	Medicare	1,085,172.68
Medical Billing	5,933,450.91	HUD Grants	2,907,711.00
Rents & Conferences	1,360,329.98	VA Grants	2,213,700.66
Production Revenue	74,272.87	Federal Grants - Other	3,533,972.88
Donations and Fundraising	1,371,992.23	State, local and Other Grants	5,621,390.24
Contracted Services	725,449.98	Production Revenue	74,272.87
Interest	3,445.25	Public Support	1,253,656.05
Other Revenue	192,980.20	Rent & Service Charges	805,404.31
Cost of Goods Sold	(557,126.55)	Client Billings	348,506.51
Bad Debt	(297,947.65)	Insurances	932,262.91
Total Net Revenues	27,128,505.75	Outside Rent	554,925.67
Plus Cost of Goods Sold	*557,126.55*	Fundraising Revenue	118,336.18
Plus Bad Debt	*297,947.65*	Sliding Scale/Free Care	2,959.35
	27,983,579.95	Interest	899.13
		Other Revenue	5,203,142.43
		Total Revenues	27,983,579.95

Harbor Homes Comments:

In the CTU's example above, the amounts reported to the Board and to DHHS agreed in total but reflected differences between line items. The differences result from different presentation of line items required by DHHS compared to the format used for the Board. Nonprofit organizations are often required to report financial information in different formats (in accordance with Generally Accepted Accounting Principles, in accordance with Federal guidelines, internal reporting, affiliate reporting, reporting to lenders, Form 990, etc.).

With respect to the differences indicated in the yellow highlighted items above, the interest line item of $3,445.25 on the Board report includes dividend income. The interest line item reported within the prescribed DHHS format only includes interest. Dividend income is reported in the "other revenue" line on the DHHS report. Below is the detail from the general ledger:

Account Number	Account Name	Amount
11-47530	Interest Income	899.13
11-47532	Dividend Income	2,546.12
		3,445.25

Charitable Trusts Unit Rejoinder:

The illustration provided by Harbor Homes above shows that the description of the line item for the board of directors should have said "interest and dividends".

Fiscal year 2018 fundraising expenses were reported differently to DHHS and CTU (in February 2019), the finance committee, and on the audited financial statements as follows:

EXPENSES	DHHS P&L (CC 619,661,620,626)	BOD (CC 661)	Audited Financial Statements
Fundraising	$867,626	$462,844	$559,731

Harbor Homes Comments:

The information presented above is not comparable. As noted above, there are different reporting requirements for different purposes. Below is a summary of the fiscal year 2018 cost center (CC) totals that reconcile to the above amounts reported to DHHS, the Board, and the audited financial statements.

CC	Description	BOD	Audited	DHHS	
619	Grant Writing			$ 241,386.00	
620	Marketing & Media			$ 59,482.00	
626	Business Dev. - PR		$ 96,887.00	$ 103,914.00	*audited includes a reclass for indirect costs
661	Fundraising	$ 462,844.00	$ 462,844.00	$ 462,844.00	
		$ 462,844.00	$ 559,731.00	$ 867,626.00	

Charitable Trusts Unit Rejoinder:

Different audiences should not receive different financial information for the same functional expense, regardless of "reporting requirements".

Both the finance committee and DHHS pay close attention to the cash position of Harbor Homes, particularly because it has struggled to maintain a good cash position. Reporting more funds as currently available cash improves the monthly internal reports. Beginning with the September, 2018 monthly report to DHHS, management included unused but available funds from lines of credit. That has improved the cash position of HHI as reported to DHHS. Interestingly, the internal monthly reports given to the investment committee do not include unused but available line of credit funds as part of the cash report. Basic accounting principles do not permit the inclusion of unused credit lines. They are considered to be "off-balance sheet" items. Moreover, the inclusion of available credit lines as cash should be offset by an accompanying addition to liabilities. The following chart illustrates this:

	06-2018	07-2018	08-2018	09-2018	10-2018	11-2018	12-2018	01-2019	02-2019
CASH and INVESTMENT per DHHS	498,658	309,952	404,044	678,608	619,821	620,102	981,189	448,130	319,534
Restricted Cash and Funded Reserves per DHHS	340,003	341,925	343,750	345,787	328,419	342,064	359,961	359,154	318,351
TOTAL	**838,661**	**651,877**	**747,794**	**1,024,395**	**948,240**	**962,166**	**1,341,150**	**807,284**	**637,885**
CASH and INVESTMENTS per BOD	21,304	208,859	60,456	209,271	144,601	386,913	772,162	318,829	138,475
Restricted Funds per BOD	528,545	835,759	965,109	940,784	903,339	317,958	336,403	335,831	337,272
TOTAL	**549,849**	**1,044,617**	**1,025,565**	**1,150,055**	**1,047,939**	**704,871**	**1,108,565**	**654,660**	**475,747**
Variace for HHI cash DHHS v. BOD	288,812	(392,740)	(277,771)	(125,660)	(99,699)	257,295	232,585	152,624	162,138
Line of Credit DHHS	702,208	954,303	1,002,307	1,500,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Line of Credit BOD	702,208	954,303	1,002,307	1,240,276	634,919	864,429	795,078	870,699	896,621
Variance	(0)	(0)	0	259,724	365,081	135,571	204,922	129,301	103,379

Harbor Homes Comments:

In Harbor Homes report to DHHS, the following footnote was included to make clear that the unused portion of the line of credit was being included as part of cash: "Note: Cash on hand includes available funds from Line of Credit as Line of Credit automatically draws from and replenishes primary checking account."

Charitable Trusts Unit Rejoinder:

Use of an unused credit line balance as available cash in a report to DHHS is improper, even if footnoted. As noted above, that amount was not included as cash in the reports to the investment committee of the board. Even accounting for the available unused line of credit, there still appears to be a variance between cash reported to DHHS and cash reported to the board of directors

Harbor Homes Comments:

Again, and in response to the above statements, reporting requirements differ for different reporting purposes. Thus, these differences are neither significant nor troubling. Nonprofit organizations are often required to report financial information in different formats (in accordance with Generally Accepted Accounting Principles, in accordance with Federal guidelines, internal reporting, affiliate reporting, reporting to lenders, Form 990, etc.).

Charitable Trusts Unit Rejoinder:

Again, different audiences should not receive different financial information for the same functional expense, regardless of "reporting requirements." There should not be variances in reporting.

Similarly, HHI reported to DHHS a cash amount as of June 30, 2018 that did not include a debit for outstanding checks on its NOW Account in the amount of $288,812. By contrast, the cash report for that period provided to the investment committee did account for those checks, and showed a cash balance $288,812 less than that reported to DHHS. The following spread sheet illustrates the failure to account to DHHS for the outstanding checks:

Group : [A]	Cash and Investments	HHI	HUD I	HUD VI	Per June 2018 Bank Statements	Variance
Subgroup : [A1]	Cash					
11-10001	Program NOW Account	(288,812.18)	0.00	0.00	-	(288,812.18)

	06-2018
CASH and INVESTMENT per DHHS	498,658
Restricted Cash and Funded Reserves per DHHS	340,003
TOTAL	838,661
CASH and INVESTMENTS per BOD	21,304
Restricted Funds per BOD	528,545
TOTAL	549,849
Variance for HHI cash DHHS v. BOD	288,812
Line of Credit DHHS	702,208
Line of Credit BOD	702,208
Variance	(0)

The reports provided to the finance committee showed net revenue (loss) numbers that varied from those appearing on the IRS Form 990 as follows:

6/30/2018	P&L (BOD)	Form 990	VARIANCE
HHI	(371,300.28)	(337,761.00)	(33,539.28)
HUD II	(13,879.08)	(13,881.00)	1.92
HUD III	6,859.98	6,859.00	0.98
HHO	(16,800.46)	(17,673.00)	872.54
HAH	(192,241.22)	(292,109.00)	99,867.78
WLI	422.95	1,488.00	(1,065.05)
GNCA	(225,362.82)	(211,585.00)	(13,777.82)
TF	10,758.75	10,758.00	0.75
MRCS	2,636.87	2,663.00	(26.13)
TOTAL	(798,905.31)	(851,241.00)	52,335.69

Taken as a whole, these variances show a pattern of Harbor Homes accounting staff preparing information for its finance committee and for DHHS different from that on its general ledger. These discrepancies call into question the accuracy of all of the financial reporting prepared by Harbor Homes financial management. It is particularly troubling that some of the reports provided to DHHS showed better financial performance than Harbor Homes internal reports.

Harbor Homes Comments:

In the specific instance previously raised by CTU, the report to the Board was made before the final audit was completed. The Healthy at Home variance was due to a software upgrade that was corrected after the report to the Board for June 2018, but before the final audit. During the final audit it was determined that prior Medicare charges were not written off as the former accountant had stated. This correction was reported to the Board and the Board minutes discuss a resulting $120K bad debt write off. The Board minutes also reflect every June that the year-end financials are unaudited and there may be some adjustments as a result of the audit.

As reporting requirements differ and financial information is required in different formats (in accordance with Generally Accepted Accounting Principles, in accordance with Federal guidelines, internal reporting, affiliate reporting, reporting to lenders, Form 990, etc.), the conclusions drawn from the above information are incorrect.

Charitable Trusts Unit Rejoinder:

Again, different audiences should not receive different financial information for the same functional expense, regardless of "reporting requirements." There should not be variances in reporting.

2. Quality of Budgeting

The finance committee and board create a budget each fiscal year, broken out into categories, which should present a financial roadmap for Harbor Homes. In order for the finance committee to track performance over the course of the year, the budget is broken out to include monthly income and expense amounts. In a number of categories during fiscal years 2018 and 2019, actual expenses have varied significantly from budget in a number of categories, as follows for HHI:

Month-Year	Fees - YTD Variance	Fees - % of Variance	Bad Debt - YTD Variance	Bad Debt - % of Variance	Depreciation - YTD Variance	Depreciation - % of Variance
07-2017	(6,874.38)	-656.00%	893.44	6.55%	(9,229.58)	11.28%
08-2017	(23,260.03)	-1109.82%	13,034.11	47.81%	(26,768.20)	16.36%
09-2017	(6,703.61)	-134.81%	27,413.17	60.05%	15,282.81	5.12%
10-2017	(8,939.30)	-134.83%	11,185.80	18.38%	23,647.33	5.94%
11-2017	(12,402.47)	-149.65%	(4,519.16)	-5.94%	33,786.54	6.79%
12-2017	(14,539.49)	-146.20%	(35,315.04)	-38.68%	44,327.29	7.43%
01-2018	(16,749.33)	-144.36%	(114,354.80)	-107.35%	55,604.30	7.99%
02-2018	(19,197.20)	-144.78%	(13,988.17)	-11.49%	65,579.32	8.24%
03-2018	(37,698.85)	-252.72%	(180,366.72)	-131.69%	57,357.54	6.41%
04-2018	(41,938.82)	-253.02%	(125,512.16)	-82.48%	65,057.96	6.54%
05-2018	(44,091.45)	-241.83%	(117,484.57)	-70.18%	72,758.38	6.65%
06-2018	(52,563.73)	-264.27%	(115,334.65)	-63.16%	80,546.35	6.75%
07-2018	(6,874.38)	-656.00%	893.44	6.55%	(9,229.58)	-11.28%
08-2018	(23,260.03)	-1109.82%	13,034.11	47.81%	(26,768.20)	-16.36%
09-2018	(27,887.13)	-887.06%	27,413.17	67.03%	(53,438.88)	-21.78%
10-2018	(37,836.26)	-902.65%	(64,103.99)	-117.56%	(66,592.52)	-20.35%
11-2018	(42,385.19)	-808.94%	(54,104.50)	-79.38%	(77,386.47)	-18.92%
12-2018	(48,578.33)	-772.62%	(52,602.45)	-64.31%	(88,180.50)	-17.97%
01-2019	(52,340.56)	-714%	(139,037.89)	-145.71%	(98,252.23)	-17.16%
02-2019	(56,251.24)	-671%	(148,444.12)	-136.12%	(108,580.38)	-16.59%
03-2019	(60,900.43)	-646%	(278,759.70)	-227.22%	(118,189.36)	-16.05%
04-2019	(67,800.24)	-647.00%	(170,898.83)	-125.37%	(127,229.92)	-15.55%

Harbor Homes Comments:

The budget is prepared and approved annually based on existing and historical information, as well as projected future events. It is an estimate at that time, and as such there can be significant explainable fluctuations during the year that reflect changes in funding sources, programs, and events and circumstances. It is not uncommon for entities to not make amendments and adjustments during the year to the originally approved budget in order to reflect changes in funding sources, programs, and events and instead document the reasons for any significant variances and discuss with the Board and Finance Committee. Harbor Homes monthly reporting includes the following financial information.

Fiscal Year 2018

- Month and year-to-date actual and budgeted revenues and expenses.
- Revenue and expenses by segment (function).
- Balance sheet.
- Combined statement of activities for the month and year-to-date including results for all entities.
- Separate reports for the Clinic (part of Harbor Homes, Inc.), Greater Nashua Council on Alcoholism, Healthy at Home, Milford Regional Counseling Services, Southern New Hampshire HIV/Aids Task Force, Welcoming Light, and the HUD projects (Separate entities – Harbor Homes II, Harbor Homes III, HH Ownership and, HUD projects that are part of Harbor Homes, Inc. and Welcoming Light – HUD project 1, 4, and 6).

Beginning in February 2019, monthly reporting to the Board was expanded to also include:

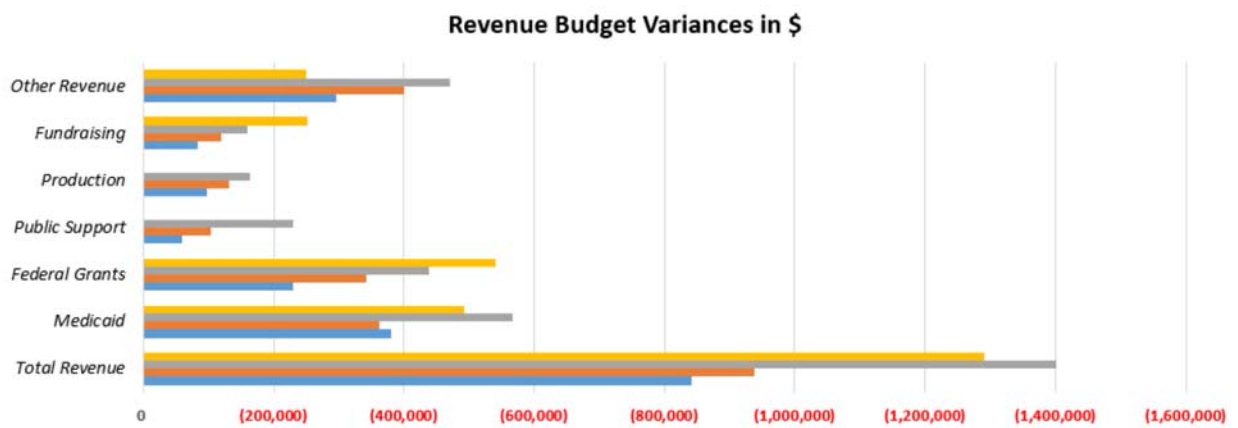
- Revenues and expenses by cost center.
- Cash flow statement.

Variances between actual and originally budgeted amounts can vary, and sometimes significantly, due to changes in funding (reimbursement and bad debt) and operations (depreciation) that occur subsequent to the approval of the original budget.

Charitable Trusts Unit Rejoinder:

While a budget is a living document, the frequency and volume of variances over several fiscal years is cause for concern.

Similarly budgeted revenue has failed to meet expectations in a number of categories, as follows for HHI in fiscal year 2019:



	Total Revenue	Medicaid	Federal Grants	Public Support	Production	Fundraising	Other Revenue
12-2018	(1,291,638.81)	(493,330.56)	(541,577.81)	0.00	0.00	(252,982.53)	(250,420.69)
11-2018	(1,400,983.39)	(566,753.94)	(438,205.59)	(229,240.42)	(164,503.75)	(159,415.67)	(471,328.62)
10-2018	(937,269.72)	(362,529.10)	(343,142.87)	(104,621.69)	(131,455.50)	(120,723.92)	(400,403.31)
09-2018	(841,017.53)	(380,372.77)	(229,279.66)	(59,628.41)	(97,287.25)	(83,060.29)	(295,556.19)

12-2018 11-2018 10-2018 09-2018

Harbor Homes Comments:

Although actual revenues differ from budgeted, fiscal year 2019 net income before depreciation through May 2019 shows a surplus in excess of $1 million.

Charitable Trusts Unit Rejoinder:

Harbor Homes reported overall annual financial losses in its audited financial statements and Forms 990 and it also reports a weak cash positions. That combination is concerning, even if net income before depreciation is positive. Agreed that Harbor Homes has shown improvement in its net income in fiscal year 2019.

While some variance in budgeting is to be expected, normally up to ten percent, this level of deviation indicates problems in the budgeting process. This is particularly the case when there is a wide discrepancy in predictable budgeted items like depreciation.

Harbor Homes Comments:

The use of percentage budget fluctuation alone, without consideration to dollar fluctuation, is misleading. Specifically, and as an example, a 10% line item variance that is an actual $5,000 variance, is immaterial to a $40 million dollar annual revenue entity.

Charitable Trusts Unit Rejoinder:

The examples identified show much larger variances from budget in absolute dollars, ranging from $59,000 to $1,400,000.

3. Meeting with Auditor

Particularly important to a board and finance committee is the annual meeting with the auditor to review the financial statements. Melanson did meet annually with the finance committee to present their reports. In recent years, Melanson did not report on observations requiring the issuance of a management letter. They did issue less formal "side letters" to management, which were mentioned to the finance committee.

Harbor Homes Comments:

Harbor Homes is in agreement with the above and considers the communication between management, the auditors (Melanson and Berry Dunn), and those charged with governance to be one of its "best practices".

VIII. OPERATIONAL ISSUES

1. Contract Compliance

The DHHS Site Review Reports for HHI and GNCA described a number of deficiencies in compliance with specific terms of contracts with DHHS. The reports included commitments from HHI and GNCA to address a number of those issues. This report does not address those matters.

Harbor Homes Comments:

Subsequent to the referenced DHHS report, DHHS staff came to Harbor Homes and Greater Nashua Council on Alcoholism/ Keystone Hall to conduct follow-up site visits, confirming that the various corrective actions identified in the report were addressed. All recommended corrective actions were achieved and verified by DHHS during these subsequent visits. The one exception is the Housing Bridge program, which improved markedly, but was unable to achieve full compliance due to some clients no longer being in the program, making it impossible to address some of the missing paperwork issues.

There is a consistent concern expressed about proper billing for client services payable either by Medicaid or by the DHHS Bureau of Drug and Alcohol Services.

Harbor Homes Comments:

Harbor Homes is unaware of any concerns about proper billing related to Medicaid or DHHS BDAS. We would appreciate any specific information that can be shared by DHHS regarding proper billing.

Of note, we recently had two unannounced, routine Medicaid audits of Harbor Homes' billing and coding practices conducted by DHHS' Office of Improvement and Integrity in February 2019 and March 2019. These were for services related to the Harbor Care Health and Wellness Center; the Transitional Housing Program, Mobile Crisis Response Team program, Harbor

Homes' Licensed Community Residences (group homes), and all Functional Support Services (TBS). DHHS' reports with the results of these audits were received in July 2019. The summary findings were Harbor Homes billing errors of less than 0.6% (March 2019) and, after appeal, 4% (February 2019), or billing coding practice accuracy of approximately 95%.

Charitable Trusts Unit Rejoinder:

DHHS staff has seen repeated billing issues across multiple programs, including:

• Mobile Crisis Response Team - instances of invoicing individuals with coverage as uninsured or underinsured and billing for client balances for uninsured or underinsured, which exceeds the covered rates.
• Transitional Housing - inaccurate use of modifiers leading to claims that should not have been paid (services not covered under contract); submitting claims to managed care organizations for payment when not all THS services are included (resulting in recoupment); billing for case management provided within THS residence (not allowable as this is covered under the per diem rate); and missing client financial records.
• Bureau of Drug and Alcohol Services - billing BDAS for clients with Medicaid coverage; long-term, repeated requests for the same documentation or information to fix corrections; providing backup documentation that was inconsistent with the amount billed; and billing a treatment contract for transportation of safe stations clients.

Additionally, DHHS is periodically invoiced for unallowable costs or for claims with little to no backup documentation:

In June 2019 Harbor Homes submitted an invoice for negative revenue for Medical Billing in the amount of $76,421. DHHS requested general ledger detail and journal entries to support the amount, Harbor Homes withdrew the invoice and stated there would be no further billing for uninsured or underinsured claims for 2019.

In April 2019 Harbor Homes submitted an invoice which included $15,848 of legal expenses. DHHS requested a re-submission as there is no budget for legal fees and that would not be covered under the contract.

One issue – promptness in submitting Medicaid billing – gets reflected in ratios reported monthly to DHHS. Harbor Homes is now in compliance with recommended days to get out billing.

Harbor Homes Comments:

Billings for services rendered are submitted daily. While we are in compliance with recommended days to get out billing, it should be noted that DHHS staff gave specific directions that Harbor Homes' billers for the Transitional Housing Program and Mobile Crisis Response Team program, were to "hold back" claims for a period of 90 days before submitting invoices for uninsured and underinsured clients to DHHS for payment. This direction by DHHS impacts our ratio negatively. Additionally, Harbor Homes had a one-time occurrence related to one MCO's appeal process for denials, resulting in more than one year of outstanding A/R and a subsequent large settlement paid for these claims in spring 2019.

DHHS staff notes that since Harbor Homes hired a compliance officer several months ago there has been improvement with submission of billing and other required information.

Harbor Homes Comments:

We appreciate acknowledgement of our compliance officer's efforts and recognize his contribution to our improvements. Additionally, since the DHHS Medicaid audits referenced above, Harbor Homes' finance department has expanded to add an additional CPA/controller, a certified coder and a billing manager to help round out its expertise and capacity. These new staff members join five professional billers, three credentialers, five accountants, and several other finance professionals, including a Chief Revenue Officer and a separate CFO. An internal audit and re-training process was developed and implemented, to identify weaknesses that may result in billing/coding inaccuracies. This is just one example of the many improvements our finance team continues to make.

The specifics of Harbor Homes' performance – and especially the sufficiency of documentation to support billing and the accuracy of coding for services – are contractual matters beyond the scope of this review.

Harbor Homes Comments:

Given CTU's statement that "The specifics of Harbor Homes' performance . . . are contractual matters beyond the scope of this review", Harbor Homes requests that the entire above "Operational Issues" section should not be included in this CTU report or in any documents made public as a result of this review process.

Charitable Trusts Unit Rejoinder:

This report would not be complete without taking note of billing issues that greatly affect Harbor Homes' income.

2. Executive Compensation

The chief executive officer is the only employee of a charitable organization supervised by the board of directors. As such, the board has the responsibility to hire, evaluate, determine compensation, and (when needed) replace that staff person.

Peter Kelleher serves as the president and chief executive officer of Harbor Homes, was its first employee, starting with the organization in 1982. He had led the organization as it has grown and succeeded over 37 years.

The president is well compensated. He receives paychecks from 6 of the Harbor Homes entities. In fiscal year 2018, he earned salaries totaling $335,921 plus other compensation (pension, life and health insurance benefits, etc.) of $81,662. In fiscal year 2017, he earned salaries and bonus totaling $423,345 plus other compensation of $78,832. In fiscal year 2016, he earned salaries and bonus totaling $235,396 plus other compensation of $78,770.

Those amounts place the president on the high end of comparably sized social service organizations in New Hampshire (such as Riverbend Community Mental Health, Inc., Moore Center Services, Inc., Riverwoods, Inc., Southern New Hampshire Services, Inc., and Crotched Mountain Rehabilitation Services, Inc.). With many years of experience and a history of success, the board may determine that its president deserves to receive a substantial compensation package above the range of comparable organizations. On the other hand, the Harbor Homes entities have suffered combined losses from 2015 through 2018 that total $851,618 and the organizations face ongoing challenges of liquidity. The board of directors should review the president's compensation.

Harbor Homes Comments:

The statement "the Harbor Homes entities have suffered combined losses from 2015 through 2018 that total $851,618" is inaccurate. It is unclear where CTU derived this amount and what is included. For fiscal years 2015 through 2018, combined net income for all entities was approximately $280,000. This includes approximately $8.3 million in depreciation and interest expense.

Charitable Trusts Unit Rejoinder:

The combined losses for the Harbor Homes entities from 2015 through 2018, as shown on the IRS Forms 990, was $846,018, and not $280,000. See the following:

	Form 990 6/30/2015	Form 990 6/30/2016	Form 990 6/30/2017	Form 990 6/30/2018	
HHI	(5,511.00)	(1,014,987.00)	(617,888.00)	(337,761.00)	(1,976,147.00)
Net unrealized gains(losses)	-	-	18,190.00	-	18,190.00
Other changes in net assets	-	1,217,521.00	-	-	1,217,521.00
HH II	8,627.00	(3,481.00)	1,836.00	(13,881.00)	(6,899.00)
HH III	(3,963.00)	7,891.00	14,466.00	6,859.00	25,253.00
HHO	(15,641.00)	(11,848.00)	(24,088.00)	(17,673.00)	(69,250.00)
H@H	25,122.00	(239,201.00)	(8,972.00)	(292,109.00)	(515,160.00)
WLI	(9,076.00)	19,094.00	12,443.00	1,488.00	23,949.00
GNCA	60,333.00	(110,700.00)	601,089.00	(211,585.00)	339,137.00
TF	24,502.00	20,354.00	(12,310.00)	10,758.00	43,304.00
MRCS	20,239.00	30,074.00	1,108.00	2,663.00	54,084.00
			Combined loss per 990 Forms		(846,018.00)
			Combined loss per DOJ report		**(851,618.00)**
				Variance	5,600.00

Harbor Homes Comments:

Harbor Homes CEO's compensation package is the result of an arm's length negotiation with the Board of Directors and Harbor Homes CEO, each of whom had separate legal counsel. Negotiations began with the parties over $150,000 apart on the issue of Harbor Homes

CEO's salary and were only able to close the gap after over six months of intense negotiations. These negotiations were informed by comparisons to local, regional and national nonprofits of approximately the same size and complexity as the Partnership for Successful Living (the Harbor Homes entities collectively). They resulted in the execution of a five year employment contract that expires on June 30, 2022. The contract has provisions requiring the hiring and development of a COO and contemplates other succession planning.

Due to changes in IRS rules with respect to deferred compensation, required distributions of $54,000 and $130,000 in 2016 and 2017, respectively, were reported as compensation. These amounts were reported in previous years as benefits/ deferred compensation. The CEO's actual salary in 2016 was $181,396 and $293,345 in 2017.

While Harbor Homes CEO's compensation package is higher than some similar organizations, it falls well under that of other entities of comparable size and complexity. The IRS permits nonprofit organizations to pay "fair and reasonable" compensation, and there is no universal standard that defines this. What is fair and reasonable at one organization may be gross under or overpayment at another.

Charitable Trusts Unit Rejoinder:

Agreed that setting the amount of compensation for the chief executive is a difficult task for the board of directors. Still, the following is a chart showing the total compensation of the chief executives at comparably sized New Hampshire organizations in fiscal year 2017:

Fiscal Year End 2017 - IRS Form 990 Organization Name	**President/CEO Wages/Benefits**	**Total Org Income**
Harbor Homes Inc.	$502,177	$27,910,201
The Riverwoods Company at Exeter New Hampshire	$356,618	$40,153,708
Moore Center Services Inc.	$297,712	$50,513,994
Behavioral Health & Developmental Services of Dover	$220,478	$30,504,938
Riverbend Community Mental Health Inc.	$220,363	$29,021,246
Crotched Mountain Rehabilitation Center Inc.	$186,538	$52,796,407
Community Bridges Inc.	$172,348	$38,573,972
Northern Human Services	$170,913	$40,541,043
The Mental Health Center of Greater Manchester	$168,984	$30,637,467
Monadnock Developmental Services	$158,218	$29,191,972
Southern New Hampshire Service Inc.	$155,277	$37,593,351

This report does not include an examination of records supporting the board of directors' determination of the president's salary, or of any determination made to continue his employment. Those governance matters are therefore not resolved by this report.

IX. RECOMMENDATIONS

The services that Harbor Homes currently provides are vitally important to Nashua and other communities in New Hampshire. Unfortunately, Harbor Homes has grown over the years into an unnecessarily complex set of organizations with inadequate financial systems and operational issues. Harbor Homes faces significant challenges, most immediate being a lack of cash liquidity. The board of directors should consider the following recommendations to address these issues:

- Retention of a business consultant to review and make recommendations for specific changes to the management, financial, and operational structure of Harbor Homes which addresses the findings in this report and Mr. Gilbert's report

- Simplification of the Harbor Homes corporate structure

- Reorganization of the financial structure by centralizing accounting databases, creating agreements for sharing of services, adopting proper procedures for intercompany and inter-program transactions, and procuring the right financial management

- Creation of systems for accurate and consistent financial reporting to board of directors and DHHS

- Retention of financial staff able to manage the budgeting, spending and reporting of finances

- Evaluation of all programs with the possible termination of programs that have operating losses

- Improvements in liquidity through annual and endowment fundraising

- Improvements in liquidity through adoption of operational efficiencies as recommended in Mr. Gilbert's report

- Evaluation of properties for possible sale or lease as suggested in Mr. Gilbert's report

- Commitment to compliance with all contractual performance requirements

- Continued commitment to timely and accurate billing for Medicaid services

- Review of the chief executive officer's compensation

Harbor Homes Comments:

As discussed in the Harbor Homes Board's letter to Thomas Donovan dated July 22, 2019, all these recommendations will be reviewed and responded to in depth by Mr. Ostrowski's report.

PRELIMINARY ASSESSMENT OF FINANCIAL VIABILITY
HARBOR HOMES AND RELATED ENTITIES
June 28, 2019

1.0 OBJECTIVE OF ASSESSMENT

The objective of this project was to formulate a preliminary assessment of the financial viability of Harbor Homes, Inc. and its related entities, [1] collectively identified as HH+. The assessment was based upon a number of documents in both paper and electronic form provided by the Charitable Trust Unit (CTU) of the New Hampshire Office of the Attorney General. These documents, mostly provided by HH+, and a personal interview with CTU staff provided information regarding the organization, its operations, and its finances.

This preliminary assessment was constrained by the completeness and accuracy of the information obtained from HH+ by the CTU. For example, financial information provided by HH+ was presented in several different forms, some organized by business entity, some by program, and some by cost center. Also, financials for HH+ were not presented in a consolidated form until 2018; thus, assessments of financial performance over time for the combined entities is substantially hindered. Because of apparent limitations in and significant questions regarding the information provided, this assessment was necessarily performed at a relatively high level.

2.0 PROJECT APPROACH

Because of time and information constraints, the approach to this initial assessment included an interview of CTU staff that have been reviewing HH+ finances and governance and independent review of summary financial information provided by CTU staff that included:

- Form 990s filed for various of the HH+ entities;
- Balance sheets for HH+ entities for 2017 and 2018;
- Net income statements for HH+ entities and programs through December 31, 2018;
- Summary financial data regarding receivables, payables, and cash on hand for HH+ fiscal year ends from 2010 through 2018;
- New Hampshire Department of Human Health Services contract documents;
- Mortgage documents;
- Promissory notes;
- Balance sheet and profit and loss data from various periods and for various combinations of the HH+ entities and programs;
- Line of credit balances for the period from July 2018 through February 2019;

Some of the information reviewed raised questions that were put to HH+ through CTU staff.

[1] Related entities included Harbor Homes II, Inc.; Harbor Homes III, Inc.; HH Ownership, Inc.; Greater Nashua Council on Alcoholism; Health at Home, Inc.; Welcoming Light, Inc.; South NH HIV/AIDS Task Force, Inc.; and Milford Regional Counseling Services, Inc.

3.0 GENERAL ORGANIZATIONAL ISSUES

Limited information was available regarding organizational structures and board and leadership operating practices at the HH+ entities. Anecdotal information suggests that there are may be some practices that warrant closer scrutiny. However, documentation of board engagement and functioning, e.g., board meeting minutes, was not available. Accordingly, a few general observations are presented in the paragraphs that follow.

3.1 Business Structure

HH+ consists of nine separate businesses, each with their own federal tax identification number. The businesses reportedly have the same people on the governing boards and the same Chief Executive Officer (CEO); however, they do not have any other formal business connection, e.g., a subsidiary relationship. They file separate Form 990s on an annual basis. Despite their nominal independent status, they operate financially as a group of related entities, moving funds back and forth between organizations on their books, at least some of which are apparently treated as loans based upon notes of "loan forgiveness" for some of the entities.

This practice is unsound because of the prospects for accounting errors to be made in tracking loans, repayments, and debt forgiveness between nine different business entities that operate a large number of individual programs, not least for contractual reasons. Funds disbursed pursuant to contracts and grants are typically designated for specific programs run by specific organizations. Accordingly, funds from those contracts and grants should not be treated as fungible cash to be moved facilely between nominally independent business entities. With the information presented, it is not possible to assess whether the funds received by HH+ have been properly used.

3.2 Business Leadership

Reportedly, there is confusion regarding management roles for the three most senior staff in the combined organizations; however, the organizational charts provided for HH+ did not identify individuals filling the listed positions. Hence, it was not possible to assess the clarity of roles and responsibilities. Good practices involve clearly articulated job descriptions and clearly delineated lines of authority. This practice is paramount for the complexity of relationships and operations at HH+.

3.3 Board Governance

A brief analysis of the board membership from the Harbor Homes, Inc. Form 990s for 2013 through 2017 (5 years) indicated variable turnover from year to year, five, one, four, and zero for years 2014, 2015, 2016, and 2017, respectively. From the limited data set available, it is not clear whether the board has established term limits, as would be consistent with good board practice, but the data are suggestive that consistent term limits may not be in place. Good practice normally involves setting observed term limits for board membership to ensure that fresh perspectives are brought to the organization over time and that there is a continuing level of inquiry into operating practices and performance (avoiding development of an "insider" environment), including particularly the CEO's performance, as well as accomplishment of strategic objectives.[2]

Further inquiry into the board's practices for recruiting new members may be warranted; good practice involves establishing a matrix of required skills and other characteristics (e.g., geographic, gender, age, etc., diversity) for board composition and then recruitment by the board of members as required to attain the desire composition. It is not desirable to have the CEO involved in board selection.[3]

4.0 INITIAL ASSESSMENT OF FINANCIAL CONDITION

4.1 Issues Reviewed

For the purpose of formulating an initial assessment of the financial condition of HH+, issues reviewed included net operating income, cash, debt, and compliance with loan, grant, and contract conditions. To the extent that they could be inferred from available information, accounting practices were also evaluated.

4.2 Net Operating Income

A summary of balance sheet data for the three Harbor Homes entities (i.e., Harbor Homes, Inc.; Harbor Homes II, Inc.; and Harbor Homes III, Inc.) for the year ends from 2014 through 2018 showed a combined pattern of operating losses with the exception of 2014. In 2014, the data indicated a gain of over $4 million; however, this datum was highly inconsistent with the historical patterns and may represent an aberration as a result of incorrect recording of a restricted grant. (A question regarding this issue has not been answered.)

Data for Harbor Homes, Inc. were available for a longer, 9-year period. These data showed a consistent pattern of changes in net assets that were negative for the period from 2011 through 2018 with the exception of 2014 (possible incorrect recording of a restricted grant as described in preceding paragraph), 2011, and 2016. The sum of the changes for the period of 2011 through 2018, excluding the questionable datum from 2014, is a loss of $781,483 from the organization, likely in the form of cash.

The 2018 audit was the first in which the operating financials for all nine business entities were consolidated. The audit also presented consolidated for 2017 for comparison. The balance sheet information showed a change in unrestricted net assets between 2017 and 2018 of a negative $710,368. Temporarily restricted net assets decreased by $210,873 in the same period, resulting in a combined decrease in net assets of over $900,000. The sources of funds that compensated for the decrease in net assets appeared to be largely new long-term debt and, in 2018, sale of investments (the nature of the investments is not identified in the audit,).

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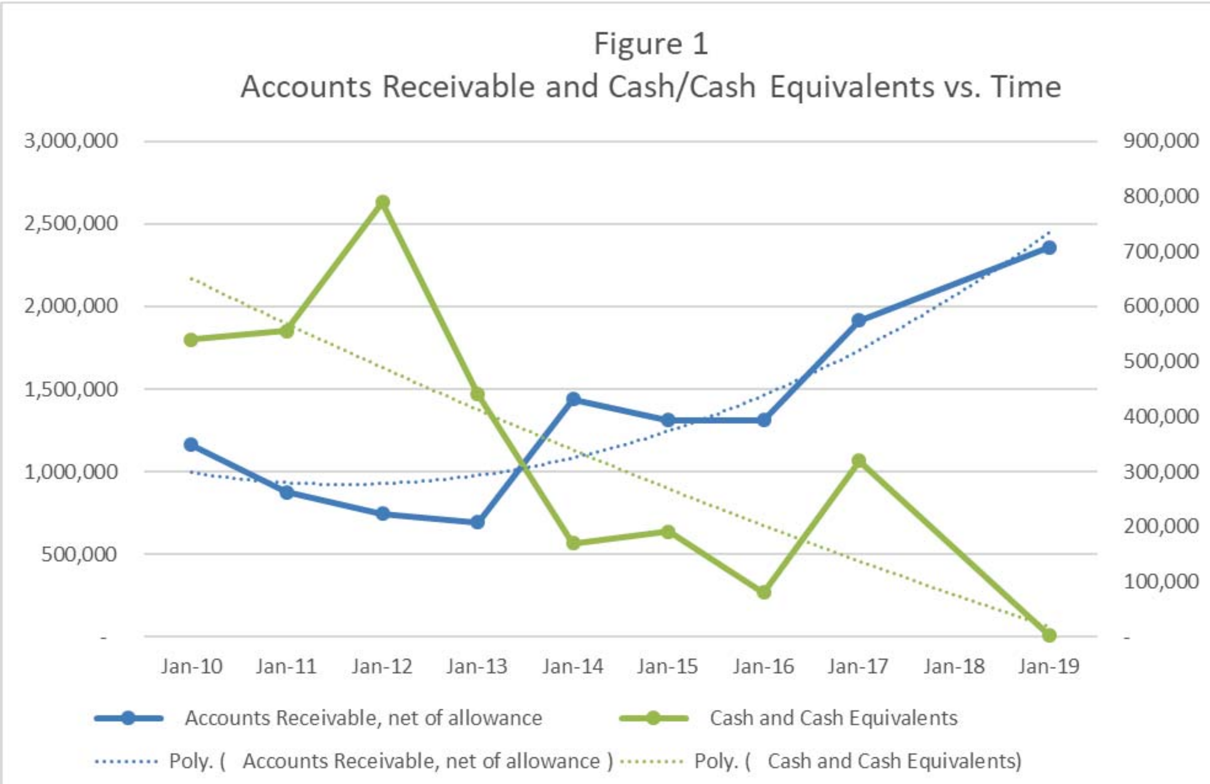
[2] For Purpose Law Group, https://www.forpurposelaw.com/charity-board-term-limits-best-practice/.
[3] NH Center for Nonprofits, https://www.nonprofitnext.nhnonprofits.org/sites/default/files/resource_library/Board_member_recruitment_rf.pdf.

A combination of profit and loss statement and Form 990 information for all nine business entities were reviewed for the years 2015 through 2018. The combined net income over this period was a loss of $2,081,729. In essence, this amount of cash was drained out of the organization; the sources of funds that covered the combined losses over this period is unclear, but likely involved taking on more debt. A continued pattern of operating losses is not sustainable in the long term. The debt obligations already incurred may not be sustainable (debt is discussed in more detail in Section 4.4 of this report.

4.3 Cash

Harbor Homes, Inc. accounts for approximately 82 percent of the total liabilities and net assets for the HH+ entities. For this one entity, cash/cash equivalent data from 2010 through 2018 show a steady decline from a high of approximately $800,000 in 2012 to less than $2,500 in 2018, a decrease of $797,500 in 6 years (see Figure 1). During the same period, accounts receivable showed a declining trend for 2010 through 2013 to a low of approximately $700,000 followed by a near-exponential increase to approximately $2.35 million in 2018. This increase in accounts receivable $1.65 million would essentially have to be funded from cash or borrowing. The decline in cash and cash equivalents of approximately $400,000 over the same period accounts for approximately one-quarter of this amount; the balance likely was funded through borrowing. (Note: a detailed analysis of borrowing amounts and timing and of the acquisition of the business entities relative to this pressure on cash was not practical for this initial assessment.)

The information presented in the preceding paragraph does not incorporate the effects of the other eight entities of the combined HH+ entities; however, the results are indicative of significant demand for and pressure on available cash resources. In addition, essentially zero days of cash were available for Harbor Homes, Inc. as of June 30, 2018, which would raise significant concern regarding its ability to continue to operate without transfers of funds from the other eight, technically unrelated business entities. It is not clear that such transfers are permissible under the terms of contracts and other funding agreements that govern the activities of the other eight entities. The promissory notes issued for the "deferred" debt, at least, do not permit such transfers. In addition to these concerns, there are some significant issues regarding long-term debt owed by HH+ entities that could substantially exacerbate the already highly stressed cash resources.



The current ratio, current assets divided by current liabilities, indicates the ability of the organization to pay its current obligations and is generally considered to be minimally satisfactory if it is 1:1, but, if it is less than 2:1, it may indicate some risk of not being able to meet short-term liabilities. Using data from the 2018 audit, this ratio for HH+ combined at the end of 2018 was 1.12:1, which was a decrease from 1.35:1 in 2017. This ratio for Harbor Homes, Inc. was never above 1.8:1 and decreased in six of the eight year to year intervals from 2010 to 2018, ending at 1.35:1 in June 2018. On a monthly basis from July 2016 through November 2018, the current ratio for Harbor Homes, Inc. was below the 1:1 standard for 26 of 29 months.

The quick ratio, cash/cash equivalents divided by current liabilities, indicates the ability of the organization to pay its current obligations without liquidating other assets. A satisfactory ratio is generally considered to be not less than 1:1. For HH+ as of June 30, 2018, this ratio was 0.3:1 and was the same at the end of 2017. For Harbor Homes, Inc., this ratio was never higher than 0.4:1 and was 0.1:1 or less for the five years of 2014 through 2018, and it was effectively 0:1 at the end of 2018. Monthly from July 2016 through November 2018, this ratio was below 0.25:1 for 23 of the 29 months.

Another measure of liquidity is to assess how long the organization could run with the cash on hand, assuming no additional funds are received. It is calculated by dividing cash/cash equivalents plus marketable securities plus receivables by average monthly expenses. For Harbor Homes, Inc. in the period from 2014 through 2018, this calculation declined for three out of four of the year-to-year intervals, from a high of 2.8 months in 2014 to 2.0 months in 2018, typically ranging from 1.9 to 2.2

months for 2014 through 2018. Clearly, this calculation does not consider demands for payment of lines of credit (LOCs) or mortgages, but rather only typical monthly loan servicing expenses. For nonprofit organizations of similar type and size, benchmark data indicate a median of 2 months to a mean of 5 months.[4]

At least some of the state contracts held by HH+ require that 30 days of cash be on hand. From July 2016 through November 2018, this requirement was not met. Cash on hand did not exceed 15 days in 26 of 29 months. It should be noted that this condition persisted while the line of credit balances were at approximately 60 percent of the combined limits.

Another factor that could affect cash requirements is the extent to which HH+ has established reserves to ensure that long-term capital replacements and repairs are adequately funded. Information regarding such reserves, typically required by funders and lenders of affordable housing agencies, was not reviewed.

4.4 Debt

4.4.1 Long-Term Debt

The 2018 audit identified a total of $15,783,030 in long-term debt owed by the HH+ entities under the terms of 25 separate mortgage agreements. Debt maturities on these mortgages ranged from November 22, 2018 to September 15, 2042.

The 2018 audit identified a total of nearly $8.6 million in "deferred" mortgages that reportedly do not require payment of interest or repayment as long as compliance is maintained with the loan agreement terms. For certain of the deferred loans, some repayment may be required if the associated program achieves an operating surplus. Review of the promissory notes for most of these loans indicates that they are all required to be repaid at the maturity date. Historically, loans of this type to affordable housing entities have typically been converted to grants or forgiven at maturity; however, as currently issued, the notes require repayment and are clear that repayment will be triggered if the properties are sold or, in some cases, re-financed.

The ratio of net assets to long-term debt is used by non-profit organizations to assess the ability of the organization to pay its debts. A desirable ratio is typically held to be within the range of 1.25:1 to 2.00:1. Calculation of this ratio for Harbor Homes, Inc. indicated that from 2010 to 2018 it typically fell below the low end of this range and was typically well below 1:1, with the exception of 2014, 2015, and 2016 when it was on the order of 1:1. This information raises concern regarding the ability of the organization to pay its long-term debt.

Thirteen of the 25 mortgages are reportedly secured by six of the 16 properties, i.e., more than one mortgage (typically two) use the same property as security, resulting in relatively high levels of debt on these properties (see table that follows).

[4] Holman, Andrew, et al., Holman, Andrew, et al., "The Analysis of Key Financial Ratios in Nonprofit Management" [PowerPoint presentation], University of Wisconsin-Milwaukee, https://static1.squarespace.com/static/533c8365e4b089b274aa090c/t/56324270e4b0f1714bc22121/1446134384522/Nonprofit+Presentation+on+Ratios.pdf.

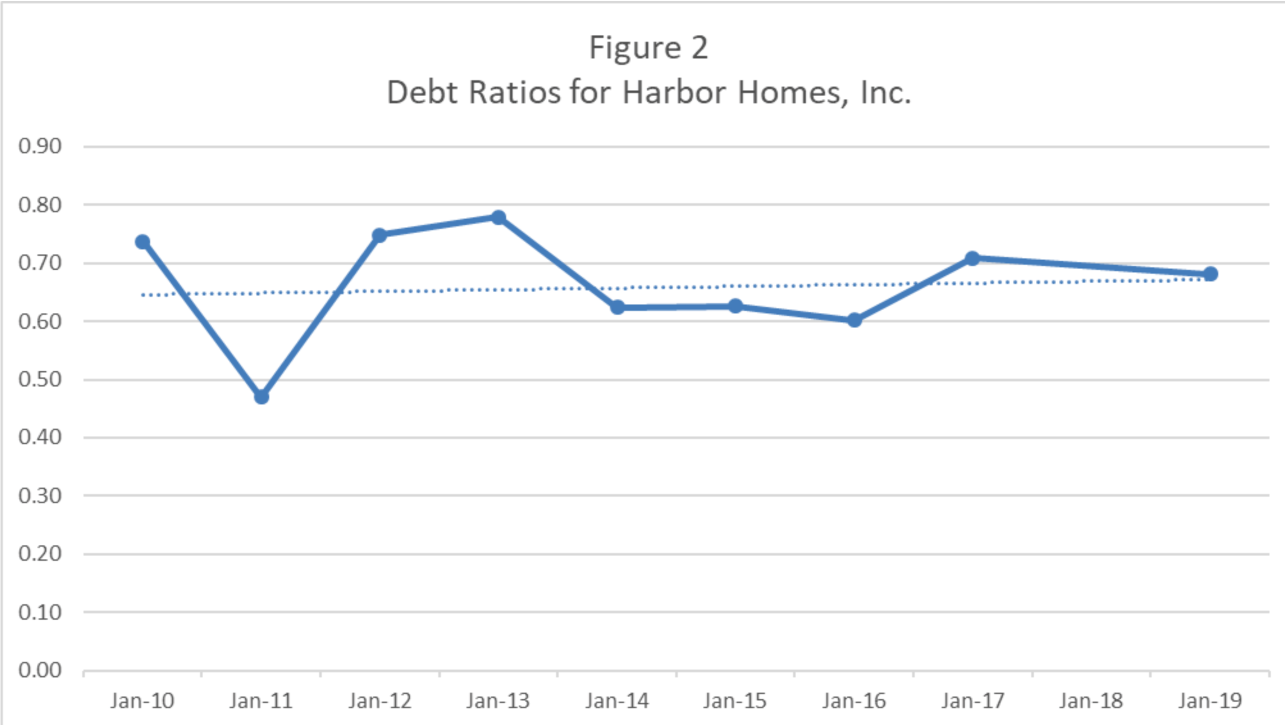
Property	Conventional Mortgage Holder	Conventional Mortgage Payable	"Deferred" Mortgage Holder(s)	"Deferred" Mortgage Payable	Total
[redacted]	Enterprise Bank	$4,500,000	N/A	N/A	$4,500,000
[redacted]	TD Bank	$5,688,988	FHLB/NHHFA	$1,885,000	$7,573,988
[redacted]	TD Bank	$2,988,511	FHLB/NHHFA/City of Nashua	$1,458,000	$4,446,511
[redacted]	TD Bank	$2,655,613	FHLB/NHHFA/City of Nashua	$1,439,747	$4,095,360
[redacted]	TD Bank	$910,759	City of Nashua	$65,000	$975,759
[redacted]	TD Bank	$3,965,762	FHLB/NHHFA/City of Manchester	$1,700,000	$5,665,762
[redacted]	N/A	N/A	HUD/City of Nashua	$516,400	$516,400

Notes to table:
1) N/A = not applicable
2) FHLB = Federal Home Loan Bank
3) NHHFA = NH Housing Finance Authority
4) HUD = Housing and Urban Development (federal agency)

The interest-only mortgages on 75-77 Northeastern Boulevard, totaling $4.5 million, were due on November 22, 2018 and February 28, 2019. Available information did not indicate the current status of the November 22, 2018 mortgage. The February 28, 2019 mortgage for $3,375,000 was extended to February 28, 2020, subject to a requirement that monthly $3,000 principal and interest payments be made until the due date, at which time all outstanding principal and interest is required to be paid in full. Sources of funds to pay off these debts in the near term were not identified in the financials in the form of reserves or other accounts. As of June 30, 2018, the total of accounts receivable and cash and cash equivalents was less than the principal amounts due for these mortgages. Foreclosures on these mortgages could represent a significant liability for the HH+ entities if the loan terms are not met.

A debt ratio is a measure of liquidity and borrowing capacity. Using 2014 through 2018 data for Harbor Homes, Inc., a slightly increasing trend in this ratio is evident (see Figure 2). The values ranged from 0.47 to 0.78, with a median and mean of approximately 0.66 and 0.67, respectively. For nonprofit organizations of similar type and size, benchmark data indicate a median of 0.16 and a mean of 0.25.[5] The Harbor Homes, Inc. debt ratio on June 30, 2018 was 0.68, a factor of 4.25 times higher than the benchmark median and 2.72 times higher than the benchmark mean. This ratio for the consolidated HH+ entities on June 30, 2017 and June 30, 2018 was 0.78 and 0.81, respectively, a factor of approximately 5.0 times higher than the benchmark median and 3.2 times higher than the benchmark mean.

[5] Holman, Andrew, et al., ibid.



4.4.2 Operating Debt

In addition to the long-term debt, HH+ has four operating lines of credit (LOCs) as summarized in the table that follows.

Lender	Borrowing Entity	Amount	Balance Due on June 30, 2018	Due Date
TD Bank	Harbor Homes, Inc.	$1,000,000	$261,746	31-Jan-20
TD Bank	Harbor Homes, Inc.	$500,000	$440,462	31-Jan-20
Merrimack County Savings Bank	Greater Nashua Council on Alcoholism	$750,000	$348,779	On Demand
TD Bank	Healthy at Home, Inc.	$250,000	$234,436	28-Feb-19

All four are established with an interest rate formula of Wall Street Journal Prime plus 1 percent that resulted in a rate of 6.00 percent on June 30, 2018. All four of these LOCs are secured by "all business assets," representing another potential demand for cash should they be called. One of the three LOCs issued by TD Bank (for Healthy at Home, Inc.) was due on February 28, 2019; the other two are due on January 31, 2019.

From 2010 through 2018, the LOC balance was at approximately $700000 or more for seven of the nine years at the year-end. It should be noted that these balances are snapshots at a single point in time and are not necessarily indicative of the level of use of the LOCs. Monthly balances of these LOCs from July 2018 through February 2019 indicated that the Healthy at Home LOC balance was typically 90 percent of the authorized line limit. The Greater Nashua Council on Alcoholism LOC balance was typically 40 to 50 percent of the line limit for this period. The combined LOC balances for HHI during this period was typically approximately 60 percent of the line limit. Combined, the LOC balances were approximately 58 percent of the authorized limits for this period.

The source(s) of funds to be used to pay off these LOCs were not identified in the audit report, nor were they readily evident in accounts or reserves identified in the financial statements. The combined amount due on the LOCs as of June 30, 2018 was approximately 40 percent of the outstanding accounts receivable on that date. Collecting on the accounts receivable to obtain this amount of cash seems unlikely given the high rate of historical year over year increase in accounts receivable, i.e., collections do not seem to be keeping pace with the level of business.

4.5 Compliance with Contract Terms

4.5.1 Deferred Mortgages

Promissory notes for most of the deferred mortgages were reviewed for key compliance requirements. The findings of this review are summarized in the table that follows. Some important observations from this summary include:

- NH Housing Finance Authority (NHHFA) and Federal Home Loan Bank (FHLB) loans require compliance with the terms of all loans on a given property and repayment of the loan if the property is re-financed or sold prior to the end of the compliance period. These requirements essentially create a cascade of obligations should HH+ default on any of the loans extant on a given property, which could result in a demand for substantial amounts of cash on short notice.
- NHHFA and FHLB loans typically require payments out of surplus cash. The generation of surplus cash was not addressed in the materials available for this preliminary assessment. Default on this obligation for a period of more than 15 days could technically trigger a requirement for repayment of these loans.

- NHHFA, FHLB, and HOME loans all require compliance with income restrictions and various sets of regulation. Compliance with these requirements was not evaluated as part of this preliminary assessment. Failure to comply with these requirements, however, could trigger a requirement to repay these loans.

- All of the promissory notes, as written, require repayment of at least principal at maturity of the note.

DEFERRED MORTGAGES HH, INC.	PROMISSORY NOTE DATE	PROMISSORY NOTE KEY TERMS
Mort. Deferred - [redacted] - NHHFA	5-Jun-12	- All 26 units < 50% median area income - Non-discrimination vs. Section 8 - Payments = 50% Surplus Cash - definition? - Comply with all NHHFA statutes/regs - Pay in full if payment > 15 days from due, property sale, improper use of funds, MCSB loan ($400K) compliance failure, any other loan terms, Event of Default under any loan - Due in full at 30 years
Mort. Deferred - [redacted] - FHLB	5-Jun-12	- Compliance with AHP agreement for 15 yrs. - Repayment in full if sold/re-financed before 15 yrs - Misuse of subsidy - Income levels in AHP Agreement - Compliance with loan terms
Mort. Deferred - [redacted] HOME		[Subrecipient NSP Funds]
Mort. Deferred [redacted] HOME	4-Jan-10	- 1 unit < 50% MAI and 7 units < 60% MAI - Pay out 100% of surplus cash - defined as net income after expense, debt payments, reserves. - Repayment required at end of affordability period or if units no longer affordable, or if property sold - Comply with applicable federal regs
Mort. Deferred - [redacted] FHLB	16-Sep-09	- Compliance with AHP agreement. - Repayment in full if sold/re-financed before 15 yrs - Misuse of subsidy - Income levels in AHP Agreement - Compliance with loan terms
Mort. Deferred - [redacted] NHHFA	1-Oct-09	- All 40 units < 50% median area income and rent at 30% applicable income limit - Non-discrimination vs. Section 8 - Payments = 50% Surplus Cash - definition? - Comply with all State statutes/regs - Pay in full if payment > 15 days from due, property sale, improper use of funds, MCSB loan ($400K) compliance failure, any other loan terms, Event of Default under any loan - Due in full at 30 years
Mort. Deferred [redacted] - CDFA		Promissory note not provided.
Mort. Deferred - [redacted] CDBG		Promissory note not provided.
Mort. Deferred - [redacted] - NHHFA	31-Aug-95	- Repayment of principal due 1 September 2015 or at sale, whichever sooner. - Comply with all other loan documents related to property. - Collection deferred by NHHFA in March 2016 with all rights reserved.
Mort. Deferred [redacted] - HOME	31-Aug-95	- Fully due and payable if sold. - Comply with City HOME rules. - Repayment in 20 years.
Mort. Deferred - [redacted] FHLB	29-Sep-96	- Compliance with AHP agreement for 15 yrs. - Repayment in full if sold/re-financed before 15 yrs - Misuse of subsidy - Income levels in AHP Agreement - Compliance with loan terms
Mort. Deferred - [redacted] - CDBG	3-Jan-06	- No discrimination per Title VI of Civil Rights Act of 1964. - No claims for prior work or work by owner. - Repay in full at sale or transfer or if no longer used for veterans/families. - No displacement of tenants.
Mort. Deferred - [redacted] - HOME	5-Dec-06	- 5 units < 50% MAI and rest of units < 60% MAI - Pay out 100% of surplus cash - defined as net income after expense, debt payments, reserves. - Repayment required at end of affordability period or if units no longer affordable, or if property sold prior to end of affordability period. - Comply with Federal regulations.
Mort. Deferred [redacted] - NHHFA	12-Apr-06	- 16 units < 50% MAI and 4 units < 60% MAI. Tenants pay no more than 30% of income for rent. - Non-discrimination vs. Section 8 - Payments = 50% Surplus Cash - definition? - Comply with all NHHFA statutes/regs - Pay in full if payment > 15 days from due, property sale, improper use of funds, any other loan terms, Event of Default under any loan - Due in full at 30 years
DEFERRED MORTGAGES OUTSIDE OF HH, INC.		
Mort Deferred - [redacted] NHHFA	17-May-11	- 30-33 units (beds) < 50% MAI and 24-27 units (beds) < 60% MAI, 5-6 units to targeted special needs regardless of income. - Non-discrimination vs. Section 8 - Payments = 50% Surplus Cash - definition? - Comply with all NHHFA statutes/regs - Pay in full if payment > 15 days from due, property sale, improper use of funds, any other loan terms, Event of Default under any loan - Due in full at 30 years
Mort Deferred - [redacted] - FHLB	17-Feb-12	- Compliance with AHP agreement. - Repayment in full if sold/re-financed before 15 yrs - Misuse of subsidy - Income levels in AHP Agreement - Compliance with loan terms
Mort Deferred [redacted] - HUD		Promissory note not provided.
Mort Deferred [redacted] - HOME		Promissory note not provided.
Mort Deferred - [redacted] - FHLB		Promissory note not provided.

4.5.2 Lines of Credit

As for the long-term debt obligations, compliance with the terms governing the LOCs is critical to avoid a demand for payment of balances due, sources of funds for which are difficult to identify in the financials of HH+. With the exception of the $500,000 TD Bank LOC, details regarding terms were not fully available in the loan documents presented; the documents for the other three referenced terms and collateral descriptions in prior loan documents. Significant terms with which compliance is required are summarized in the table that follows.

Lender	Borrowing Entity	Amount	Significant Terms
TD Bank	Harbor Homes, Inc.	$1,000,000	Terms refer to an earlier promissory note from 2001, a copy of which was not available; no liens including mechanics liens; no default on obligations to third-parties for more than 15 days.
TD Bank	Harbor Homes, Inc.	$500,000	Pay down fully 1 day per month; quarterly/annual financials; monthly AR report; annual budget after FYE; no loans to any other entity; no offering of security interest in collateral; notification of events of default required; no liens including mechanics liens; no default on obligations to third-parties for more than 15 days; debt service coverage - predistributions ratio not less than 1.2 to 1.0.
Merrimack County Savings Bank	Greater Nashua Council on Alcoholism	$750,000	Monthly AR report; advances limited to 80% of receivables < 90 days; refers to terms and description of collateral in an earlier LOC agreement dated 9/11/2014, a copy of which was not available.
TD Bank	Healthy at Home, Inc.	$250,000	No liens including mechanics liens; no default on obligations to third parties for more than 15 days.

Failure to comply with the relevant terms of the LOCs can trigger an acceleration of the due date and payment in full of outstanding balances, which would impose a substantial additional cash burden. One datum that could be evaluated for the TD Bank $500,000 LOC was "debt service coverage – pre-distribution." The loan document specified that this ratio was to be no less than 1.2 to 1.0; as of June 30, 2018, calculation of this ratio without the interest due on the Boulder Point construction loan yielded 1.04, very slightly above the low end of the acceptable range. Monthly data for this ratio for the period of July 2016 through November 2018 indicated that the ratio was below 1.0 for 16 of the 29 months in the period.

Some significant terms identified for which data demonstrating compliance were not available include:

- TD Bank $1 million LOC:
    - No mechanics liens, of interest due to the normal practices of contractors involved in maintaining or rehabilitating facilities;
    - No default on third-party obligations for more than 15 days, of interest due to the rise in accounts payable and increasingly restricted available cash over the last several years;
    - Note that other terms are contained in an earlier Promissory Note a copy of which was not available;
- TD Bank $500,000 LOC:
    - Pay down fully one day per month;

- No loans to other entities, of interest due to the amount of funds transfers back and forth between HH+ entities;
- No offering of security interest in loan collateral, of interest due to the number of other mortgages on properties that might be interpreted as "investment property" per the loan agreement collateral list;
- No mechanics liens, of interest due to the normal practices of contractors involved in maintaining or rehabilitating facilities;
- No default on third-party obligations for more than 15 days, of interest due to the rise in accounts payable and increasingly restricted available cash over the last several years;

- Merrimack County Savings Bank $750,000 LOC:
  - Advances limited to 80 percent of accounts receivable less than 90 days, of interest due to the rapid increase in receivables in the last several years;
  - Note that additional terms and a description of collateral are contained in an earlier loan agreement a copy of which was not available;
- TD Bank $250,000 LOC:
  - No mechanics liens, of interest due to the normal practices of contractors involved in maintaining or rehabilitating facilities;
  - No default on third-party obligations for more than 15 days, of interest due to the rise in accounts payable and increasingly restricted available cash over the last several years;
  - Note that other terms typical of LOC notes were not included in the loan document, prompting a question as to whether there may be an earlier loan document with these terms.

5.0 FINDINGS AND RECOMMENDATIONS

5.1 Risks

HH+ is currently and has for some time been experiencing a severe shortage of cash. Over approximately the last two years, HH+ has typically had 15 days or less of cash on hand while carrying an average balance of $1.4 million on its operating LOCs. The combined entities are thus highly sensitive to conditions that present a sudden demand for cash. The AP trend has been rising over the last several years; in the absence of a specific schedule of AP, i.e., amounts due over 30, 60, 90, etc., days, it is not possible to evaluate the timeliness with which HH+ meets its obligations. If payments are deferred for a lengthy period of time, it is possible that vendors will begin to withhold services or future credit due to unpaid balances. In turn, vendor reluctance can hinder the ability of HH+ to deliver services and then invoice for payment under contracts or release grant funds from restriction. Given that approximately 75 percent of HH+ revenue derives from government grants and contracts, the inability to provide services and be reimbursed for them can further adversely affect cash balances. If pay for employees should be delayed due to a shortage of cash, HH+ may experience departures of key employees and managers, which will further hinder delivery of services and generation of cash. This combination of conditions may become a self-reinforcing negative cycle.

One consequence of the cash shortage may be concern on the part of funders and contracting agencies regarding the ability of HH+ to meet its debt and contractual obligations. Withdrawal or reassignment of contracts will further diminish the financial stability of HH+. Should lenders perceive risks to financial stability, they may require repayment of loans and LOCs. It should be noted that HH+ is already and has for some time been in technical default of at least some loan (e.g., bank-required debt service ratios) and contractual conditions (e.g., state-required 30 days of cash on hand). An additional level of risk is the interrelated nature of much of the HH+ debt. For example, the promissory notes for virtually all of the "deferred" mortgages require compliance with the terms of the other loans on the properties and treat events of default as defaults under those notes, triggering their repayment. As a practical matter, if one lender demands repayment, others are likely to take similar steps or require additional security to keep their loans in place. Given the degree of leverage already existing on the properties, it is unlikely that additional loans will be forthcoming from lenders, again hindering financial flexibility. For example, as shown in the table that follows, six properties on which both conventional and deferred mortgages have been issued have a negative net value, should the properties be foreclosed upon or sold to satisfy the conventional debt.

Address	Town	Conventional Mortgage as of 4/30/2019	Deferred Mortgage	Estimated Market Value	Net of 4% R.E. Broker Commission	Estimated Market Value Less Broker Commission
[redacted]	Nashua	$3,587,424	$1,885,000	$3,950,000	$3,792,000	($1,680,424)
[redacted]	Manchester	$2,231,465	$1,700,000	$2,877,500	$2,762,400	($1,169,065)
[redacted]	Nashua	$1,183,783	$1,439,747	$2,154,500	$2,068,320	($555,210)
[redacted]	Nashua	$1,502,401	$2,038,236	$2,901,700	$2,785,632	($755,005)
[redacted]	Nashua	$0	$138,830	$112,500	$108,000	($30,830)
[redacted]	Claremont	$209,174	$0	$211,600	$203,136	($6,038)

Should lenders take possession of mortgaged HH+ properties and require repayment of outstanding debt, not only will such requirements quickly exhaust available cash, but they will hinder HH+'s ability to render compensated services, further exacerbating the pressures on scarce available cash.

5.2 Recommendations

The recommendations in this section were developed from a business perspective; they do not address potential regulatory options pursuant to grants, contracts, and state regulations.

Prudent management dictates that HH+, under the supervision of the Board, make immediate positive progress in improving the number of days of cash on hand through such measures as:

- reorganizing the HH+ entities into the fewest number practicable while complying with contractual obligations to contracting and funding agencies to simplify accounting and internal management requirements;
- streamlining staffing, particularly in accounting and other support functions that will be redundant in a consolidated organizational structure, to reduce operating costs;
- closely examining the financial performance of the HH+ programs and identifying opportunities to improve efficiencies or, alternatively, terminating programs that cannot operate with a positive net margin;

- thoroughly analyzing operating costs and renegotiating government contracts if payment or fee schedules do not adequately cover these costs;
- renegotiating rent restrictions for some of the government-funded affordable housing programs;
- evaluate potential savings that could be realized through contracting for property management services;
- ensure that vacancy rates and durations are minimized to the extent practicable;
- if there are properties that are not fully utilized or occupied, evaluate options for consolidating staff and disposing of empty properties or leasing available space to other organizations or businesses;
- establish an internal discipline to use positive net income to pay down lines of credit and create an operating cash reserve;
- executing a campaign to create an endowment the earnings on which can be added to the operating cash reserve, thus providing an additional buffer against short-term fluctuations in available cash; and
- streamline and improve the accuracy of billing practices, reducing the level of effort and resources required for re-billing, as well as the time required to be paid for services delivered.

Institution of some or all of these measures will improve compliance with contractual and funding requirements, as well as reducing operating debt and improving compliance with lender requirements, eliminating conditions of technical default that currently exist.

From a governance perspective, the HH+ entities, preferably consolidated to the extent practicable, should develop and institute sound board practices including enforcing term limits and instituting a board-driven director recruitment process. The board composition should include committed individuals with a mix of professional skills and experience covering such areas as property and asset management, real estate, finance, legal, mental health service delivery, substance abuse counseling and recovery, etc., to ensure that the board possesses the necessary expertise for vigilant oversight of organizational performance and appropriate exercise of its fiduciary responsibility to the HH+ organizations. To the extent that there is a lack of clarity in management roles, the board should work with the CEO to ensure that such clarity is achieved to improve operational efficiency.

It should be noted that the variability in periods and organizations included in the different sets of financial documents that were provided for this review necessarily constrains the assessment of risk and recommendations presented in this preliminary assessment report. Should additional information subsequently become available, the findings and recommendations presented herein should be revisited and, if and as appropriate, revised.

77 Northeastern Blvd.
Nashua, NH 03062
www.harborhomes.org

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August 26, 2019

CONFIDENTIAL

Thomas Donovan, Esq.
New Hampshire Dept. of Justice
Charitable Trusts Unit
33 Capitol Street
Concord, NH 03301

Re: Harbor Homes – Report of Consultant Michael Ostrowski

Dear Mr. Donovan:

As Chair of the Harbor Homes Board of Director's I am pleased to attach and forward Mr. Ostrowski's report on his recent review of Harbor Homes.

In adopting his report at special Board meeting on August 26, 2019, the Board adopted the following Resolution by unanimous consent:

> RESOLVED – The Harbor Homes Board of Directors have fully cooperated with the business consultant suggested by the Attorney General, Charitable Trusts Unit ("CTU"), Mike Ostrowski. He has reviewed Harbor Homes' current operations, finances and management, in response to the CTU's July 3 draft report on Harbor Homes. The Harbor Homes' Board has reviewed and questioned Mr. Ostrowski's findings in the course of his review. It now unanimously adopts and endorses his report dated August 26, 2019 and pledges to make all necessary efforts to implement Mr. Ostrowski's recommendations.

Harbor Homes has always appreciated and valued its relationship with the State of New Hampshire and the Department of Health and Human Services. It looks forward to the extension of its current contracts with the Department and a renewed spirit of cooperation with the Department as it and Harbor Homes continue to strive to meet the needs of New Hampshire's medically and economically needy populations.

Sincerely,

DW Sallet

Daniel W. Sallet
Chair, Board of Directors

Consultant's Report
Michael R. Ostrowski
August 26, 2019

Overview

In response to the first recommendation of the Attorney General's Charitable Trust Unit (CTU) draft July 3, 2019, report, the Board of Directors of Harbor Homes/Partnerships for Successful Living (HH/PSL) engaged me as a consultant (please see my professional resume attached to this report). The purpose of the engagement is to address the recommendations of the Charitable Trust Unit in its draft July 3 report including its accompanying report by John Gilbert.

My consultation covers the period from July 8, 2019 through August 2019. My evaluation included interviews with or attendance at meetings with:

- Eighteen staff members including the top administration of the organization as well as program managers (each of these staff are listed in the Appendix to this report);
- The Board Executive Committee (the Chairs of the Standing Committees of the Board) on eight occasions;
- The Board Chair; and
- The Board of Directors twice

The CTU report accurately reflects the importance of Harbor Homes as a provider of housing, behavioral health, social services, and medical care. It is hard to overstate the importance of the array of services provided by HH/PSL. The organization has put together a unique mosaic of services to address clients with complex problems including the homeless, the persistently mentally ill, people with substance use disorder, and special populations like homeless veterans. HH/PSL has responded to acute community needs like the opioid crisis that is impacting our entire nation. It is rare to see an organization with such a comprehensive, integrated service array that includes housing and medical care, SUD treatment, and social services. HH/PSL has been directly responsible for bringing millions of new federal dollars into New Hampshire's underfunded social service and low income housing sector. This is a major coup for NH.

CTU Recommendations and Consultant Findings

The Sections numbered 1-12 below directly quote in the heading and then address the recommendations of the CTU in its July 3, 2019 report. Following my report is an Appendix that contains my responses to the report of CTU's consultant, John Gilbert, a description of all the Harbor Homes employees I interviewed and my resume.

1. ***Retention of a business consultant to review and make recommendations for specific changes to the management, financial, and operational structure of Harbor Homes which addresses the findings in this report and Mr. Gilbert's report.***

   The entirety of this report responds to the first recommendation of the CTU. My focus in this analysis is on management and operational processes as well as the structures and strategies employed at

HH/PSL. In this time limited engagement, I looked at several State-funded programs from the standpoint of management and structure, including:

- Southern NH HIV/AIDS Taskforce
- Facilitating Organization (FO) Support Services; and,
- Keystone Hall.

I did not do a comprehensive program audit, read case records, or interview direct serve staff and clients.

The HH/PSL Board of Directors has been extremely responsive to all of my requests for information and meeting times. The Board has taken the CTU and DHHS concerns very seriously and responded with action. The Board Executive Committee is meeting weekly to review all programs and respond to CTU recommendations. The Board Finance Committee is meeting at least monthly and is scrutinizing financial reports for accuracy and consistency across formats.

2. ***Simplification of the Harbor Homes corporate structure.***

The corporate structure of PSL has both a purpose and a history. HUD regulations specifically require a separate entity for certain low-income housing programs and the buildings that they own (see HH July 22 response p.8). It is relatively easy to see on their corporate organizational chart, those entities that focus on housing and own HUD property.

Over the course of recent years, a number of organizations came to HH/PSL because they were in crises and could not continue operating independently or did not have the managerial, financial and program development expertise to maintain their missions. They made a request to become part of the HH/PSL organization, thus preserving their missions and avoiding bankruptcy or involvement of the CTU of the AG's office. These organizations include:

- The Greater Nashua Council on Alcoholism doing business as Keystone Hall;
- The Southern NH HIV/Aids Task Force;
- Milford Regional Counseling Services;
- Welcoming Light Institute;
- Salem Area Retarded Citizens (SARC); and,
- Boulder Point Veterans Housing.

As these organizations became a part of the HH/PSL family, a decision was made to retain their individual corporate identities so that contracts with funders and their ownership of properties were not in any way affected. In retrospect, a number of these organizations might have been fully incorporated into HH.

There are several other programs that fit into the category of rescued programs, not because they were facing bankruptcy, but rather because no other organization would agree to do the work and clients were in critical need of service. These programs include the Glencliff Home reintegration project where the State DHHS needed to reintegrate several medically-fragile, persistently impaired clients into the community after years of institutionalization. HH was the first organization to stand up and agree to do so based on a "handshake" agreement with the Commissioner. The Transitional Housing Program for clients with significant impairments leaving the NH State Hospital was another program few other agencies would agree to do besides HH. The third contract for the Mobile Response Crises Team received one other bid.

The Board is actively reviewing the organizational structure with input from management. The discussion focuses on the merging, termination, or "moth-balling" of several elements of the current structure so that it more closely resembles what is occurring operationally. If approved by CTU and on a timeline after their current contractual obligations are completed, the following programs will be merged into Harbor Homes or a new entity inclusive of Harbor Homes:

- Milford Regional Counseling
- Welcoming Light Training Operations
- SO NH HIV/AIDS Task Force, and
- Keystone Hall is being considered for merger but will take months of analysis considering the scope of services and contracts.

This effort is consistent with the Strategic Plan approved by the Board in 2018.

Recommendation:

- The Board should continue this review process timing the merger of these programs and organizations to coincide with contract terminations or the pay down of financial liabilities. This will minimize the disruption to program management and clients. The goal is that HH/PSL will have a single entity including all service providing programs and retain the HUD property owning companies as standalone organizations in a two to three year time frame.

3. ***Reorganization of the financial structure by centralizing accounting databases, creating agreements for sharing of services, adopting proper procedures for intercompany and inter-program transactions, and procuring the right financial management.***

Growth has been a major theme at HH/PSL recently, as it greatly increased its homeless and veterans services and responded to the State's opioid and substance abuse crisis. The agency doubled in financial size in a four to five year period going from a \$20,000,000 a year organization to a \$40,000,000 a year organization. This rapid growth has impacted the entire infrastructure of the organization with several departments scrambling to expand and re-organize to meet their new contract demands. Beginning in August 2018, the finance department began a re-organization and increased its capacity by adding several senior-level staff. The new staff includes a Comptroller with a CPA and significant experience working for the State of New Hampshire including the Department of Health and Human Services (Stephen Kiander). A position of Chief Revenue Officer (Ana Pancine) was created to focus attention on contract revenue and meeting contract obligations. (See HH July 22 response p. 30, 31)

A billing manager, who is also a professional coder (Jannine Pomerleau), was hired to supervise the billing department and increase the quality and timeliness of accounts receivable in an effort to reduce the pressure on the line of credit. The most recent data shows improvements in accounts receivable and in days of cash in hand.

With the creation of the new positions of Comptroller, Chief Revenue Officer and Billing Manager, coupled with the retention of skilled personnel to fill those roles, the finance department is taking the steps needed for the organization to remain financially viable. I believe that growth will continue for HH/PSL, requiring careful planning for expanding financial capacity to match that growth. In talking to mid-level program managers, I believe there is an opportunity to increase the commitment to programmatic financial viability by increased training of mid-managers in utilizing financial data and greater inclusion in the budgeting process.

HH/PSL has been selected by The NH Charitable Foundation and the Heron Foundation for a new project to strengthen the financial expertise of nonprofit agencies such as Harbor Homes serving Substance Use Disorder clientele. Through this program, a series of national level consultants will provide staff and Board education tailored to their needs, on site consultation and access to national experts over an 18 month period. Public announcements will take place in late August. This is a new development with strong positive ramifications.

Recommendations:

- Continue consolidation of financial staff located in independent programs under the finance department and bring them into the 77 Northeastern Blvd. headquarters building where possible.
- Implement an electronic purchase order system in order to increase the accuracy of program charges and to reduce approval lag time.
- The cited changes in the Finance Department should greatly enhance HH/PSL's operations and the State's confidence in them. However, the Board, working with management, should immediately begin the process of finding a replacement for the retiring CFO, to further strengthen HH's Finance Department and additionally enhance its operations and reporting. Outlining the requirements of the position and the talents needed should begin immediately as should recruitment. The position requirements should include financial and organizational expertise as well as the ability to communicate clearly.

4. *Creation of systems for accurate and consistent financial reporting to board of directors and DHHS.*

All elements are in place to assure the consistency and timeliness of financial reports. The Board Finance Committee has moved to monthly meetings starting in July and has been receiving consistent financial data on each major program. There has been a great deal of Board questioning when variance from budget occurs and staff explains programmatic challenges, which are then followed up at subsequent Finance Committee meetings.

Beginning with the July 1, 2019 financial reports, all reports to the DHHS and the Board Finance Committee will cover the same time periods, utilize the same reporting formats, and tie directly to audited financial statements. Any adjustments to prior periods will be well documented and all reports updated. Budget to actual comparisons will be consistent in all reports and deviations from budgets explained (with documentation available upon request). Like many organizations, HH/PSL does not make budget adjustments mid-year. The Finance Committee is reviewing this policy particularly in the case of large loss of funding or major program changes.

5. *Retention of financial staff able to manage the budgeting, spending and reporting of finances.*

Please see Section 3 above relative to the recommendation for recruitment of a new CFO and recent staff additions.

6. ***Evaluation of all programs with the possible termination of programs that have operating losses.***

As part of the budgeting process and in response to the CTU July 3 draft report, the Board Executive Committee has been meeting weekly since July 10 to do a program by program review. Their review includes the following elements:

i. How central is the program to the mission and overall strategy of HH/PSL?
ii. What is the economic viability of this program and can it contribute to the overall bottom line?
iii. What is the level of overhead and infrastructure support that the program requires?
iv. Does this program bring specific payment risks and what are the payment lags and needs for cash?
v. What is the likelihood that this program will continue beyond its initial period?

HH/PSL has terminated ten programs within the past 18 months because they were not central to their mission and they were not financially viable. They are:

- Homeless Management Information System
- Respite, Safe Stations
- Emergency Shelter at Maple Street
- Partial Hospitalization Program
- Veteran's Administration Severely Mentally Ill Program
- Rapid Re-housing Program of HUD
- Homeless Youth Outreach Coordinator with Nashua Schools
- Permanent Housing I
- Milford Regional Counseling Service – NH Cares Grant
- Recovery Services in jails funded through state

This willingness to take fiscally responsible action shows good management and sound Board oversight. The detailed review process underway may identify a few more programs for elimination.

Recommendations:

- As discussed with the Commissioner, the Board should consider discontinuing its Mobile Crisis Response Team program unless the DHHS can provide an additional $200,000 for FY 2020 to cover ongoing losses.
- It is critical that Board Committees challenge management staff to identify programs with financial concerns very early before significant budget impact occurs. The debilitating negative impact of the medical respite program could have been caught much sooner.
- The Board should apply the above five criteria to proposed new programs.
- The management and Board should recognize and celebrate programmatic and financial success to incentivize staff.

7. ***Improvements in liquidity through annual and endowment fundraising.***

HH/PSL developed as a publicly funded agency with rapid growth from various Federal funders as well as State purchase of service contracts. Non-grant fundraising lagged behind in development since these public strategies were so successful. There was hardly time to think about long-term fundraising when they were constantly implementing new programming. The Board of Directors was recruited for their professional expertise and their commitment to meeting the needs of the homeless and disabled clients. Fundraising was not part of Board recruitment or expectations, nor was it seen as a major role for top management.

Long-term viability of the organization depends on having diversified revenue streams that include significant amounts of charitable revenue. HH/PSL could solve their long term liquidity problems as well as develop capital for program innovation by increasing fundraising revenue. HH/PSL has a basic foundation for further expansion of fundraising efforts. The organization has a development department and has been somewhat successful in raising charitable revenue this past year. The Board has consistently raised $200,000 per year for the "Ending Homelessness Fund" which it uses as match for certain housing of the homeless programs at HH. In general, HH/PSL's total fundraising exceeds $500,000 per year and is expected to do so in 2019.

Recommendations:

- Continue efforts to develop a capital campaign to raise $1 to $1.5 million to fund program cash flow and program innovations. This will entail retaining a consultant and involving Board and staff.
- Raise the annual overall non-grant fundraising goal to $2,000,000 within the next four years and develop a strategic fundraising plan to chart a path to get there.
- Hiring a new COO will shift operational responsibilities from the CEO allowing the CEO to increase attention to donor development and Board fundraising and away from day to day operations.
- A long-term goal should be to increase planned giving for endowment purposes. The stability that an endowment brings truly ensures the mission of the organization.
- Restrict government funded project growth until liquidity can support it or new grant projects are profitable.

8. ***Improvements in liquidity through adoption of operational efficiencies as recommended in Mr. Gilbert's report.***

A key finding of the Gilbert report was that HH/PSL lacked sufficient cash to fund current operations. HH/PSL is employing the following strategies to address this concern:

- Cash conservation including:
  - Freeze on new capital equipment;
  - Scrutinizing all purchases; and,
  - Freeze on salaries;
- Improved billing (see section 11 of this report);
- Operational efficiencies resulting in revenues in excess of expenses;
- Converting assets to cash (see section 9 of this report);
- Leasing unused space in the 77 Northeastern Blvd. Building; and,
- Fund raising (see section 7 of this report).

As underfunded programs are downsized or terminated, staff members are given the opportunity to transfer to more viable projects as appropriate. There have been a significant number of staff transfers to improve efficiency and retain experience within the organization.

There have been several successful consolidations of function, including the consolidation of the Human Resource function from associated organizations to a new Director of HR (Linda Falco). Training has also been centralized enabling a more robust training effort that does not duplicate program efforts and centralizes new employee orientation.

Recommendations:

- In order to retain key staff and foster a sense of fairness in employment, the agency should create a compensation plan with consistent treatment of similar positions across programs and funding sources so that there is equal pay for equal work.
- Performance bonus criteria and metrics should be clear, and well documented in the personnel file, prior to implementation with a specific staff person. A bonus pool should be included in the program budgeting process.

9. ***Evaluation of properties for possible sale or lease as suggested in Mr. Gilbert's report.***

There are efforts underway to lease excess capacity at the 75-77 Northeastern Blvd. building. Four thousand square feet of the 77 Northeast Blvd. building has been leased [redacted] There are discussions with several additional prospects for leasing of the remaining space. The Facilities Committee of the Board of Directors has begun a review of the 31 properties owned by HH/PSL. Three Nashua properties are currently under consideration for sale: An apartment building on Maple Street that housed a shelter program that has been terminated and two smaller buildings, one on New Haven Street and one on Mulberry Street. Altogether these three buildings represent approximately [redacted] of equity that will become unencumbered cash. Two other properties are under consideration for sale (12 and 14 Amherst Street) with equity surpassing [redacted] All this revenue will be available to pay down lines of credit. HH/PSL is scheduled to receive a developer fee payment (on the Boulder Point Project) of approximately [redacted] in October 2019 with an additional payment expected later in the fiscal year.

Recommendation:

- The Board Facilities Committee should continue their review to include the financial viability of all HH/PSL buildings (except HUD funded buildings which cannot be sold) including:
  - Cost of maintenance;
  - Cost of capital improvements and their budget impact;
  - Which buildings should be liquidated due to lack of value to current programming; and,
  - Which buildings should be sublet to utilize their full capacity.

10. ***Commitment to compliance with all contractual performance requirements.***

HH/PSL has made two major improvements in its commitment to comply with the performance and documentation requirements of every contract. In April 2018 they hired a Chief Compliance Officer (CCO), Michael Zechman, J.D.. Mr. Zechman has 14 years of relevant experience and as CCO, has read and detailed the requirements of each HH/PSL contract. The CCO has begun work with program staff to develop procedures, processes, and policies to comply with each contract. The organization has also begun a process of internal program compliance review that includes unannounced internal audits with a focus on program operations and documentation. This was an excellent decision on the part of management and should lead to significant compliance success going forward. In FY 2020, all programs will have a heightened focus on compliance through standardized tools (dashboards) highlighting program requirements and finance metrics, which will be reviewed monthly by a management led compliance committee. These individual program dashboards will be rolled up into an overall PSL dashboard that the management and Board can use to gain real-time oversight of performance.

Secondly, the Board directed the CEO to hire a COO, realizing how rapid agency growth had significantly overextended the CEO's time dedicated to operations. A position description was developed and an interim COO was hired internally (Mary Beth LaValley) and has started work. The recruitment of a new COO has begun and several candidates have been reviewed by the Board's Executive Committee. The focus of the COO will be on program operations and compliance. The COO will support program managers and the quality of client services, and will hold staff accountable to contract specifications.

11. ***Continued commitment to timely and accurate billing for Medicaid services.***

Medicaid, Medicare, and private insurance are a large part of the revenue that HH/PSL receives for services. Therefore, billing these payers for specific patient care becomes very important in reducing the payment lag and denied claims that lead to the need to borrow cash. The organization has made excellent progress by hiring an experienced billing and coding supervisor (Jannine Pomerleau). The Supervisor has consolidated staff under her leadership and engaged in a great deal of training. She has developed a team spirit where questions are welcomed, learning encouraged, and hard work celebrated. The last unannounced Medicaid audit came back with a 99.4 accuracy rating. (See HH July 22 response p.30.)

Timeliness of client billing can be affected by requirements of DHHS. DHHS staff gave specific directions regarding bills for the Transitional Housing Program and Mobile Crisis Response Team. The invoices for the uninsured and underinsured clients in these programs were to be held back for 90 days prior to submission. This continues to negatively impact two programs that are struggling to break even.

In June of this year, HH/PSL resolved a dispute with a Managed Care Organization that resulted in a [redacted] payment of an outstanding account receivable.

12. ***Review of the CEO's compensation.***

A detailed analysis is provided in the HH July 22 response p. 30-31. The CEO's current contract was a product of extensive negotiations over six months between the Board and the CEO both of whom had their own attorneys.

The CEO leads a unique organization that includes social services, health care, and property development and management. Given the range of responsibilities and the fact that health care salaries are increasing rapidly, the Executive Committee believes that they reached a reasonable employment contract with the CEO. The CEO has 37 years of experience and advanced degrees. This contract, that ends 06/2022, will be the last prior to his retirement.

Recommendations:

- The Board, led by the Executive Committee, should immediately begin creating a written succession plan for the position of CEO. The succession plan should include updated position requirements and specify which Board standing committee or temporary committee will be responsible for implementation (search committee). The succession plan should also detail how the current CEO's role will evolve going forward to place a greater emphasis on fundraising and community outreach with the COO taking on most of direct program and staff management;
- The Board should clarify the process that will be used to develop a Board-wide consensus relative to the qualities they seek in a new CEO;
- The Board should decide on the scope of the search and how they will treat internal candidates vs. external candidates in the process. If they decide to use a search firm, they should identify several potentials and make initial inquiries regarding the scope of their work and costs. The Board may also consider requesting charitable support for the search;
- Because of her expertise and experience, Harbor Homes Director of Human Resources (Linda Falco) can advise the Board on the recruitment process and act as a staff person to the Board search committee; and,
- The search firm should be engaged a year in advance of the CEO's contract end i.e. July 2021.

Conclusion

Based on my reading of the CTU Draft Report and discussion with DHHS, I believe the State is looking for both contrition and change from HH/PSL. The Board of Directors and staff have taken the State's concerns seriously and are prepared to make hard choices. Because of rapid growth and poor communication with DHHS, a number of mistakes were made that should have been corrected in a straight forward manner. Unfortunately, they were allowed to cascade to the present level of concern and distrust.

HH/PSL has made significant progress in addressing the concerns of the CTU and DHHS. Management and the Board are committed to implementing the recommendations of this report in a timely fashion and to work to establish a new level of communication and trust based on these reforms. The more than 6,000 clients served by the many programs of HH/PSL are too important to let organizational issues interfere with their vital care.

APPENDIX

Consultant's Report
Response to John Gilbert Recommendations

The following are specific responses to the recommendations included in Section 5.2 of John Gilbert's report of June 28, 2019.

A. Reorganizing the HH+ entities into the fewest number practicable while complying with contractual obligations to contracting and funding agencies to simplify accounting and internal management requirements.

I concur that structural simplification will produce long term benefits. Please see Section 2 of the Consultant's Report for current actions and future recommendations.

B. Streamlining staffing, particularly in accounting and other support functions that will be redundant in a consolidated organizational structure, to reduce operating costs.

Significant staff restructuring is currently underway particularly within the accounting function. See Section 3 of the Consultant's Report for elaboration.

C. Closely examining the financial performance of the HH+ programs and identifying opportunities to improve efficiencies or, alternatively, terminating programs that cannot operate with a positive net margin.

In response to the CTU report, the Board is currently engaged in a detailed program review process. This review is in addition to the normal Board budget approval process. A number of programs have been discontinued for lack of financial viability. See Section 6 of the Consultant's Report for details.

D. Thoroughly analyzing operating costs and renegotiating government contracts if payment or fee schedules do not adequately cover these costs.

HH/PSL has consistently attempted to renegotiate programs that are underfunded including the Mobile Crisis Response Team Program and the Glencliff Program. These attempts to negotiate with NH DHHS have been met with limited success. Attempts to renegotiate will continue and these programs will be included in the Board's review process on program viability.

E. Renegotiating rent restrictions for some of the government-funded affordable housing programs.

Rent restrictions on HUD funded programs are built into the structure of the program at inception. These are typically nationwide criteria established to serve a specific population and are not negotiable on a local level.

F. Evaluate potential savings that could be realized through contracting for property management services.

HH/PSL has reviewed its in-house maintenance costs and compared them to commercial property management. HH/PSL costs are significantly lower. In-house maintenance also provides a training opportunity for certain clients as they move to self-sufficiency.

G. Ensure that vacancy rates and durations are minimized to the extent practicable.

I agree that vacancy rates are of particular importance. Most rates are reasonable with two properties lagging due to their locations in Antrim and Claremont. Efforts continue to fill those two locations.

H. If there are properties that are not fully utilized or occupied, evaluate options for consolidating staff and disposing of empty properties or leasing available space to other organizations or businesses.

This recommendation is underway. See Consultant's Report Section 9.

I. Establish an internal discipline to use positive net income to pay down lines of credit and create an operating cash reserve.

The Board and Management concur with this recommendation but need direct help from the State to achieve this. This would include consistent contract administration and supplemental funding when needed. Retaining cash has become a priority. See Section 8 of the Consultant's Report. Positive net income will be used to pay down lines of credit and, in the long run, establish a cash reserve.

J. Executing a campaign to create an endowment the earnings on which can be added to the operating cash reserve, thus providing an additional buffer against short-term fluctuations in available cash.

This recommendation is addressed in Section 7 of the Consultant's Report.

K. Streamline and improve the accuracy of billing practices, reducing the level of effort and resources required for re-billing, as well as the time required to be paid for services delivered.

Implementing this recommendation is well underway and has shown good progress. Accounts receivable have been reduced and billing accuracy significantly improved. See Section 3 of the Consultant's Report. Certain State contracts, such as the Facilitating Organization contract, have significant structural time lags because the community agency bills HH/PSL which, in turn, bills the State insuring a 60-90 day payment lag. In the first year of this contract the State advanced 30 days which was extremely helpful. The current contract does not include this provision.

L. Board Membership and Governance

In closing his recommendations, Mr. Gilbert suggests that the HH/PSL Board of Directors adhere to best practices in nonprofit governance including term limits, a clear talent matrix for Board recruitment, and clarity between Board and management roles. I concur with his recommendation and believe that the Board has committed to further improvement in these areas. Term limits of two three-year terms are in place for Board members and three one-year terms for officers. The Board Governance Committee is responsible for Board recruitment and is developing a matrix of skills, talents, and gender and cultural balance to use in recruitment efforts. There is a particular need for Board members with talent for and commitment to fundraising.

APPENDIX

Staff interviewed:

Peter Kelleher, Chief Executive Officer

Mary Beth Lavalley, Interim Chief Operating Officer and Director of Keystone Hall (Greater Nashua Council on Alcoholism)

Vanessa Talasazan, Chief Strategy Officer, Chief of Staff

Pat Robitaille, CPA, Chief Financial Officer

Steven Kiander, CPA, Comptroller – hired within the past year – has experience working at DHHS and the State Lottery Commission

Ana Pancine, Chief Revenue Officer

Michael Zechman, Chief Compliance Officer

Linda Falco, Director of Human Resources – extensive experience in business organizations

Jannine Pomerleau, Billing and Coding Supervisor

Miles Pendry, Director of Information Technology

Mark Stokes, Director of Development

Heather Nelson, Director of Housing programs

Jonathan Brown, Director, Harbor Care Health and Wellness Center

Wendy LeBlanc, Director, Southern NH AIDS Task Force

Alex Hamel, Director of Programs, Keystone Hall

Mary Bendel, Vice President of Healthy at Home

Cheryle Pacapelli, Program Director, Facilitating Organization program (community recovery programs).

Jean Mullen, Administrative Assistant for Board and CEO

PROFESSIONAL RESUME
Michael R. Ostrowski

(603) [redacted] [redacted] Amherst, NH 03031 [redacted]

EXPERIENCE

2013 -2019	Nonprofit Consultant, Executive Transitions, Board Issues
2013 - 2014	New Hampshire Center for Nonprofits-Interim **President CEO**
1986 - 2013	Child and Family Services of New Hampshire (Waypoint)-**President CEO**
1982 - 1986:	Family and Children's Service of Midland Midland, Michigan-**Executive Director**
1977 - 1982:	Family and Children Services of Oakland Pontiac, Michigan (now called Family Service Oakland) Substance Abuse Treatment Program Director Employee Assistance Program Director
1973 - 1977	Caseworker, Family and Children Services of Oakland Family therapy with a general caseload

PROFESSIONAL ACTIVITIES

- Board of Directors, Endowment for Health, Audit Chair, 2016-present
- President of New Hampshire Center for Nonprofits, 2006 to 2011
- President, Leadership New Hampshire, 2003 to 2009
- Vice Chair, National Council on Accreditation, 1996-1999
- Child Welfare League of America, Board of Directors 1993-1997
- Leadership New Hampshire, class of 1993
- Chair, National Conference, Child Welfare League of America, 1990
- President of Manchester Rotary Club 2001
- President, Michigan Chapter National Association of Social Workers, 1982-1984

EDUCATION

- Doctoral Candidate, School of Public Administration, University of Colorado
- M.S.W. Wayne State University, 1973: Social Casework
- B.A. Wayne State University, 1971: Majors: Psychology and Sociology