HARBOR

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

HARBOR

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Harbor
P.O. Box 8970
Toledo, Ohio 43623-0970

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Harbor and affiliates (nonprofit organizations) (collectively the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harbor and affiliates as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of Harbor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harbor's internal control over financial reporting and compliance.

Weber Clarke Ltd.

October 30, 2018

HARBOR
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,248,279	$ 9,681,436
Program Service Fee Receivables	4,550,691	3,548,105
Public Support and Other Receivables	2,451,231	2,168,528
Gross Receivables	7,001,922	5,716,633
Less : Allowance for Doubtful Accounts and Contractual Adjustments	(991,087)	(652,466)
Net Receivables	6,010,835	5,064,167
Prepaid Expenses	933,855	936,001
Funds on Deposit with Trustee	87,596	104,762
Total Current Assets	10,280,565	15,786,366
INVESTMENTS	7,462,941	3,392,827
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	131,581	126,842
PROPERTY AND EQUIPMENT, NET	11,307,584	10,269,821
OTHER ASSETS		
Capative Insurance	15,075	15,075
Cost of Patent Pending	83,240	-0-
Total Other Assets	98,315	15,075
TOTAL ASSETS	$ 29,280,986	$ 29,590,931

"The Accompanying Notes are an Integral Part of These Financial Statements"

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Current Portion of Notes Payable	$ 306,781	$ 285,703
Accounts Payable - Medicaid and Other	88,392	137,590
Accounts Payable - Trade and Flex Plan	778,741	673,966
Accrued Payroll and Vacation Pay	1,761,478	1,971,398
Accrued Expenses - Other	659,418	702,477
Medicaid Liability	884,871	-0-
Accrued Pension Contribution	174,590	167,372
Deferred Compensation	196,621	79,358
Deferred Income	375,423	467,023
Total Current Liabilities	5,226,315	4,484,887
LONG-TERM LIABILITIES		
Notes Payable - Net of Current Portion	3,786,978	3,342,106
Total Long-Term Liabilities	3,786,978	3,342,106
TOTAL LIABILITIES	9,013,293	7,826,993
NET ASSETS		
Unrestricted	13,423,072	14,048,327
Permanently Restricted	131,581	126,842
Total Harbor Net Assets	13,554,653	14,175,169
Noncontrolling Interest in Consolidated Affiliate	6,713,040	7,588,769
TOTAL NET ASSETS	20,267,693	21,763,938
TOTAL LIABILITIES AND NET ASSETS	$ 29,280,986	$ 29,590,931

HARBOR
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support								
Grants from Government Agencies	$ 9,617,801	$ -0-	$ -0-	$ 9,617,801	$ 7,378,311	$ -0-	$ -0-	$ 7,378,311
Contributions	404,493	-0-	-0-	404,493	164,580	-0-	-0-	164,580
Total Public Support	10,022,294	-0-	-0-	10,022,294	7,542,891	-0-	-0-	7,542,891
Program Service Fees and Other Revenue								
Program Service Fees	30,323,964	-0-	-0-	30,323,964	32,749,419	-0-	-0-	32,749,419
Contracts	3,151,734	-0-	-0-	3,151,734	3,864,068	-0-	-0-	3,864,068
Special Events	58,989	-0-	-0-	58,989	35,832	-0-	-0-	35,832
Contributed Rent	516,935	-0-	-0-	516,935	708,186	-0-	-0-	708,186
Other	167,776	-0-	-0-	167,776	127,129	-0-	-0-	127,129
Total Program Service Fees and Other Revenue	34,219,398	-0-	-0-	34,219,398	37,484,634	-0-	-0-	37,484,634
Net Assets Released from Restrictions								
Satisfaction of Time Restrictions	-0-	-0-	-0-	-0-	2,907	(2,907)	-0-	-0-
Total Public Support, Program Service Fees, and Other Revenue	44,241,692	-0-	-0-	44,241,692	45,030,432	(2,907)	-0-	45,027,525
EXPENSES								
Program Services	39,720,153	-0-	-0-	39,720,153	40,872,533	-0-	-0-	40,872,533
Management and General	7,169,528	-0-	-0-	7,169,528	6,568,456	-0-	-0-	6,568,456
Fund Raising	26,041	-0-	-0-	26,041	28,059	-0-	-0-	28,059
Total Expenses	46,915,722	-0-	-0-	46,915,722	47,469,048	-0-	-0-	47,469,048
Operating Loss	(2,674,030)	-0-	-0-	(2,674,030)	(2,438,616)	(2,907)	-0-	(2,441,523)
Other Income								
Sale of Physician Contracts	778,645	-0-	-0-	778,645	-0-	-0-	-0-	-0-
Interest and Dividend Income	282,133	-0-	-0-	282,133	234,125	-0-	-0-	234,125
Realized and Unrealized Gains on Investments and Beneficial Interest in Perpetual Trusts	112,268	-0-	4,739	117,007	220,145	-0-	6,143	226,288
Gain on Disposal of Property and Equipment	-0-	-0-	-0-	-0-	75,724	-0-	-0-	75,724
Total Other Income	1,173,046	-0-	4,739	1,177,785	529,994	-0-	6,143	536,137
CHANGE IN NET ASSETS	(1,500,984)	-0-	4,739	(1,496,245)	(1,908,622)	(2,907)	6,143	(1,905,386)
CHANGE IN NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(875,729)	-0-	-0-	(875,729)	(563,574)	-0-	-0-	(563,574)
CHANGE IN NET ASSETS ATTRIBUTABLE TO HARBOR	($ 625,255)	$ -0-	$ 4,739	($ 620,516)	($ 1,345,048)	($ 2,907)	$ 6,143	($ 1,341,812)

"The Accompanying Notes are an Integral Part of These Financial Statements"

HARBOR
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2018 and 2017

	2018				2017			
	Program Services	Management and General	Fund Raising	Total	Program Services	Management and General	Fund Raising	Total
Personnel Expenses								
Salaries and Wages	$ 25,516,046	$ 3,947,584	$ -0-	$ 29,463,630	$ 26,756,759	$ 3,488,260	$ -0-	$ 30,245,019
Employee Benefits	5,981,076	736,433	-0-	6,717,509	6,847,729	805,042	-0-	7,652,771
Contracted Personnel	582,623	1,135	-0-	583,758	405,498	1,402	-0-	406,900
Personnel Related	304,647	160,649	-0-	465,296	572,487	250,272	-0-	822,759
Total Personnel Expenses	32,384,392	4,845,801	-0-	37,230,193	34,582,473	4,544,976	-0-	39,127,449
Facilities Expense								
Buildings and Grounds	2,050,898	110,607	-0-	2,161,505	2,241,322	256,072	-0-	2,497,394
Computers and Communications	640,400	433,668	-0-	1,074,068	555,939	241,879	-0-	797,818
Automobiles	324,394	33,772	-0-	358,166	376,384	32,909	-0-	409,293
Equipment and Furnishing	166,529	47,516	-0-	214,045	202,218	35,305	-0-	237,523
Total Facilities Expense	3,182,221	625,563	-0-	3,807,784	3,375,863	566,165	-0-	3,942,028
Specific Assistance	2,038,160	-0-	-0-	2,038,160	984,917	-0-	-0-	984,917
Professional Services	443,932	978,594	-0-	1,422,526	408,878	826,900	-0-	1,235,778
Professional Liability Insurance	360,097	2,096	-0-	362,193	328,948	3,533	-0-	332,481
Program Supplies	328,037	-0-	-0-	328,037	282,174	-0-	-0-	282,174
Travel in Job Activities	182,182	29,480	-0-	211,662	217,692	31,440	-0-	249,132
Interest Expense	-0-	148,767	-0-	148,767	121	98,243	-0-	98,364
Other	21,712	80,961	-0-	102,673	66,920	58,714	-0-	125,634
Office Supplies	84,972	14,318	-0-	99,290	72,291	17,618	-0-	89,909
Non-Operating	-0-	79,370	-0-	79,370	-0-	110,135	-0-	110,135
Postage	55,254	6,613	-0-	61,867	55,946	8,292	-0-	64,238
Printing	33,631	4,077	-0-	37,708	20,888	12,959	-0-	33,847
Special Events Expense	-0-	-0-	26,041	26,041	-0-	-0-	28,059	28,059
Publications	3,319	2,551	-0-	5,870	4,177	1,453	-0-	5,630
Total Expenses before Depreciation and Amortization	39,117,909	6,818,191	26,041	45,962,141	40,401,288	6,280,428	28,059	46,709,775
Depreciation and Amortization of Property and Equipment	602,244	351,337	-0-	953,581	471,245	288,028	-0-	759,273
Total Expenses	$ 39,720,153	$ 7,169,528	$ 26,041	$ 46,915,722	$ 40,872,533	$ 6,568,456	$ 28,059	$ 47,469,048

"The Accompanying Notes are an Integral Part of These Financial Statements"

HARBOR
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	($ 1,496,245)	($ 1,905,386)
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operating Activities:		
Depreciation and Amortization	953,581	759,273
Gain on Disposal of Property and Equipment	-0-	(75,724)
Change in Allowance for Doubtful Accounts and Contractual Adjustments	338,621	(121,797)
Realized and Unrealized Gains on Investments and Beneficial Interest in Perpetual Trusts	(117,007)	(226,288)
Changes in Operating Assets and Liabilities that Decrease Cash Flows:		
Public Support and Program Service Fee Receivables	(1,002,586)	(570,793)
Grants and Other Receivables	(282,703)	(812,210)
Prepaid Expenses	2,146	(208,480)
Other Assets	(83,240)	-0-
Funds on Deposit with Trustee	17,166	(7,908)
Accounts Payable - Medicaid and Other	(49,198)	25,257
Accounts Payable - Trade and Flex Plan	104,775	298,965
Accrued Payroll and Vacation Pay	(209,920)	378,327
Deferred Income	(91,600)	171,237
Medicaid Liability	884,871	-0-
Other Accrued Expenses	81,422	309,596
Total Adjustments	546,328	(80,545)
NET CASH USED IN OPERATING ACTIVITIES	(949,917)	(1,985,931)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(4,088,554)	(698,966)
Proceeds from Sale of Investments	130,708	215,914
Proceeds from Sale of Property and Equipment	-0-	775,724
Purchases of Property and Equipment	(1,790,091)	(2,071,879)
NET CASH USED IN INVESTING ACTIVITIES	(5,747,937)	(1,779,207)

"The Accompanying Notes are an Integral Part of These Financial Statements"

HARBOR
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Borrowings on Notes Payable	494,444	-0-
Principal Payments on Notes Payable	(229,747)	(273,328)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	264,697	(273,328)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,433,157)	(4,038,466)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	9,681,436	13,719,902
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,248,279	$ 9,681,436

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:	2018	2017
Interest	$ 148,800	$ 98,400

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

	2018	2017
Debt Incurred to Purchase Property	$ 201,253	$ 822,135
Debt Refinanced	-0-	565,862

"The Accompanying Notes are an Integral Part of These Financial Statements"

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Harbor, Behavioral Connections of Wood County, Inc., Lifestream, LLC and Beacon Telehealth, LLC are private nonprofit organizations and Lighthouse Telehealth, LLC, is a for profit organization (collectively, the "Organization") that provide readily accessible, quality, comprehensive services to individuals, families, and organizations throughout the community. The Organization provides both behavioral and primary healthcare, prevention, and wellness services as well as vocational training services and day habilitation programming. These services are provided to residents of Toledo and surrounding communities.

Beacon Telehealth LLC, a wholly owned subsidiary of Harbor, was formed in 2017 to provide telehealth services. At June 30, 2018, Beacon Telehealth, LLC ceased operations.

Lighthouse Telehealth, LLC, a wholly owned subsidiary of Harbor, was formed in 2018 to provide telehealth services.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Harbor, Behavioral Connections of Wood County, Inc., Lifestream, LLC, Beacon Telehealth, LLC and Lighthouse Telehealth, LLC, which are consolidated in accordance with the provisions of FASB ASC 958-810, *Consolidation*. All intercompany balances and transactions have been eliminated.

The accompanying financials statements have been prepared on the accrual basis of accounting. The accrual basis provides for the recognition of revenues when earned and recognition of expenses when incurred.

Financial Statement Presentation

The accompanying consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic, *Not for Profit Entities, Presentation of Financial Statements*. Under this topic, the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand, demand deposits with banks, and investment instruments with initial maturities of three months or less. The Organization maintains its cash and cash equivalents in bank deposit accounts which at times, may exceed federally insured limits. Such excess uninsured amounts, which aggregated approximately $2,824,100 and $8,218,900 at June 30, 2018 and 2017, respectively, are uncollateralized and in the event of bank failure may not be returned.

Deferred Revenue

Certain clients are billed in advance for participation in the Employee Assistance Program. Such billings are deferred and recognized as income as they are earned.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is based upon the estimated useful lives, ranging from three to forty years, of the various assets and is computed using the straight-line method. The Organization capitalizes assets with a cost of over $2,000.

Investments

Investments are recorded at fair value. Interest and dividends are recorded when earned. Realized gains or losses are recorded as of the trade date of the transactions. Realized and unrealized gains and losses on investments are presented in the statement of activities.

Beneficial Interest in Perpetual Trusts

The Organization’s interest in the future income stream of two perpetual trust agreements is reported as assets based on a percentage, representing the Organization’s beneficial interest in the annual income distributions, of the fair value of the trusts’ assets.

Recognition of Donor Restrictions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Unrestricted Net Assets

Unrestricted net assets consist of all the resources and obligations related to the daily operations of the Organization.

Temporarily Restricted Net Assets

Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization.

Permanently Restricted Net Assets

Permanently restricted net assets include contributed assets for which the donor has specified that the corpus be invested in perpetuity and that only the income be available for donor restricted purposes.

Functional Allocation of Expenses

The costs of providing the various programs are summarized on a functional basis in the statements of activities. Accordingly, certain costs are allocated between the programs and supporting services benefited. Management considers its method of allocation to be equitable.

Self-Insured Health Benefits

The Organization provides for the complete costs of health care benefit claims of employees. Risks related to these health care benefits are mitigated through use of a third party insurer to limit claims costs to $75,000 per beneficiary annually. The Organization has accrued for the estimated cost of claims incurred, but not paid prior to year end.

Collective Bargaining Agreement

Certain employees of the Organization are covered under a collective bargaining agreement with Local No. 911, United Food and Commercial Workers Union, AFL-CIO, which is effective through December 31, 2021. Approximately 61% of the Organization's employees are bound by the union agreement at June 30, 2018.

Patents

The cost of patents pending consists of costs associated with applying for a patent on an entry way security screening device. If a patent is awarded, the costs will be amortized using the straight line method over its estimated useful life. If a patent is denied, the costs will be expensed in the year denied. At June 30, 2018 no patents had been awarded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Tax Status

Harbor, Behavioral Connections of Wood County, Inc., Lifestream, LLC and Beacon Telehealth, LLC are exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Lighthouse Telehealth, LLC is a wholly owned subsidiary of Harbor and, as such, is disregarded for Federal Income Tax purposes. Accordingly, no provision for income taxes has been recognized in the accompanying financial statements.

Management of the Organization is required to determine whether a tax position of the Organization, such as tax exemption designation, is more likely than not to be sustained upon examination by the applicable taxing authority. Management of the Organization is not aware of any tax positions for which it is reasonably possible that a significant change in a tax position will occur in the next twelve months. The Organization's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during each reporting period. The most significant areas involving the use of management's estimates and assumptions are the determination of the allowance for doubtful accounts and contractual adjustments, depreciation of property and equipment, in-kind rent, Medicaid liability, refundable advances, accrued compensated absences, and the allocation of expenses to program services and management and general activities. Actual results could differ from those estimates.

Allowance for Doubtful Accounts and Contractual Adjustments

An allowance for the amount of billings in excess of estimated realization is provided. This amount is calculated using both historical recovery experience and specific contractual arrangements with insurance and third-party providers. The increase in the allowance of $338,621 from June 30, 2017 to June 30, 2018 is due to an increase in aged receivables resulting from a billing delay by Medicaid. The effect on the change in net assets is a decrease of $218,008 for the year ended June 30, 2018.

Accounts receivable are reduced by an allowance for doubtful accounts. Accounts receivable are deemed past due 30 days after the invoice date. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 20I6-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements*, which improves presentation of financial information and makes financial statements more informative, transparent and useful to donors, grantors, creditors, and other users of a Not-for-Profit Organizations' financial statements. The key provisions of the ASU include net asset classes, investment return, expenses, liquidity and availability of resources, and statement of cash flows. The standard replaces the three net asset classifications with two net asset classifications, those with donor restrictions and those without donor restrictions, and enhances the disclosures about the nature and amount of donor restrictions. The ASU also requires an organization to present expenses by nature and function and include an analysis of expenses showing the relationship between natural and functional classification. Further, the ASU requires organizations to provide information about the liquidity and availability of its financial resources. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the new standard may have on its financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which establishes a single comprehensive revenue recognition standard for all entities and industries. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services in an amount the entity expects to be entitled to receive for those goods or services. The FASB has also issued several updates to this standard.

The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2018 and for interim periods therein. Early adoption is permitted for nonpublic entities beginning after December 15, 2017. This ASU may be applied using a full retrospective approach (with certain practical expedients available) or a cumulative effect approach. The Organization is currently evaluating the impact the new standard may have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which amends existing accounting standards for lease accounting, including requiring lessees to recognize most leases on the balance sheet and making certain changes to lessor accounting. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019 and for interim periods therein, with early adoption permitted. This ASU requires a modified retrospective transition approach (with certain practical expedients available). The Organization is currently evaluating the impact the new standard may have on its financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Subsequent Events

Management has evaluated events and transactions from June 30, 2018 through October 30, 2018 for possible recognition or disclosure in these financial statements. This date is the date these financial statements were available to be issued. Note 16 includes disclosure of a subsequent event.

NOTE 2 - PROGRAM SERVICE FEE RECEIVABLES

The Organization provides services without collateral to its clients, most of whom are local residents and are insured under cost reimbursement methodologies (Medicaid) and third-party payer agreements. The mix of net receivables from these sources is as follows:

	2018	2017
Medicaid	52%	52%
Lucas County MHRS Board	6	3
Wood County ADAMHS Board	5	9
Rehabilitation Services Commission	0	5
Business Direct Pay	6	8
Commercial Insurance	10	10
Other	7	4
Patient Pay	10	5
Medicare	4	4
Total	100%	100%

Approximately 74% and 77% of the Organization's total program service fees were received from the Medicaid program in 2018 and 2017, respectively.

Even though a large percentage of the Organization's total program service fees was received from the Medicaid program, management believes that the Organization is properly diversified within the Medicaid program.

NOTE 3 - INVESTMENTS

The investments at June 30 are summarized as follows:

	2018 Cost	2018 Fair Value	2017 Cost	2017 Fair Value
Certificates of Deposit	$ 175,000	$ 174,742	$ 170,374	$ 170,374
Mutual Funds	2,638,105	3,475,997	2,518,497	3,222,453
Corporate Bonds	714,682	712,275	-0-	-0-
Exchange Traded Funds	3,147,034	3,099,927	-0-	-0-
TOTAL	$6,674,821	$7,462,941	$2,688,871	$3,392,827

Income from investments, including cash and cash equivalents, for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Interest and Dividends	$282,133	$234,125
Net Unrealized/Realized Gains on Investments	117,007	226,288
TOTAL	$399,140	$460,413

The Organization has a line of credit with its investment broker up to the amount of the investment balance and cash equivalent money market account balance ($3,581,780 at June 30, 2018). The line of credit has varying interest rates of 2.25% to 5.0% based on amount borrowed. The line of credit is collateralized by the investments of the Organization. There are no amounts due under the line of credit as of June 30, 2018.

NOTE 4 – FAIR VALUE MEASUREMENTS

FASB ASC Topic, *Fair Value Measurements*, defines fair value and establishes a framework on measuring fair value in generally accepted accounting principles. It also establishes a fair value hierarchy on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

NOTE 4 – FAIR VALUE MEASUREMENTS, Continued

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

The certificates of deposit and beneficial interest in perpetual trust are classified as Level 2 due to the inputs not being traded on an active market but for which observable market inputs are readily available. Transfers between levels 1, 2 and 3 of the fair value hierarchy are recognized at the date the transfer is made. There were no transfers between levels in 2018 and 2017.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

Fair Value Measurements at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Assets:				
Certificates of Deposit	$ -0-	$174,742	$ -0-	$ 174,742
Mutual Funds	3,475,997	-0-	-0-	3,475,997
Corporate Bond	712,275	-0-	-0-	712,275
Exchange Traded Funds	3,099,927	-0-	-0-	3,099,927
Total Investments at Fair Value	7,288,199	174,742	-0-	7,462,941
Beneficial Interest in Perpetual Trusts	-0-	131,581	-0-	131,581
Total Assets at Fair Value	$7,288,199	$306,323	$ -0-	$7,594,522
Liabilities:				
Deferred Compensation	$ 196,621	$ -0-	$ -0-	$ 196,621

Fair Value Measurements at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Assets:				
Certificates of Deposit	$ -0-	$170,374	$ -0-	$ 170,374
Mutual Funds	3,222,453	-0-	-0-	3,222,453
Total Investments at Fair Value	3,222,453	170,374	-0-	3,392,827
Beneficial Interest in Perpetual Trusts	-0-	126,842	-0-	126,842
Total Assets at Fair Value	$3,222,453	$297,216	$ -0-	$3,519,669
Liabilities:				
Deferred Compensation	$ 79,358	$ -0-	$ -0-	$ 79,358

NOTE 4 – FAIR VALUE MEASUREMENTS, Continued

During the years ended June 30, 2018 and 2017, the beneficial interest in perpetual trusts increased by $4,739 and $6,143, respectively, due to unrealized gains in 2018 and 2017.

NOTE 5 – BENEFICIAL INTEREST IN PERPETUAL TRUST

The Organization was named one of the beneficiaries of the Rahda G. Laha Trust (Laha Trust), an irrevocable perpetual trust. A third party trustee, who manages the assets and distributes the income among the thirteen beneficiaries, holds all of the assets. Under the trust agreement, the Organization receives annual distributions of income earned by the assets, but never gains use of the trust corpus. Distributions from the Laha Trust amounted to $3,723 and $3,806 in 2018 and 2017, respectively.

The Organization was named one of the beneficiaries of the Webster Sturdivant Trust (Sturdivant Trust), an irrevocable perpetual trust. A third party trustee, who manages the assets and distributes the income among the fourteen beneficiaries, holds all of the assets. Under the trust agreement, the Organization receives annual distributions of income earned by the assets, but never gains use of the trust corpus. Distributions from the Sturdivant Trust amounted to $1,310 and $2,631 in 2018 and 2017, respectively.

The Organization's interest in the future income stream of the perpetual trusts have been recognized based on their beneficial interest in the market value of the trust's assets. The Organization's interest in the trusts at June 30, 2018 and 2017 is $131,581 and $126,842, respectively.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2018	2017
Land	$ 2,597,610	$ 2,483,368
Buildings and Building Improvements	11,314,497	8,976,160
Furniture and Equipment	744,124	684,937
Computer Equipment and Software	2,562,121	2,250,275
Construction in Process	491,449	1,357,358
Automobiles	942,513	908,906
Total Property and Equipment	18,652,314	16,661,004
Less: Accumulated Depreciation and Amortization	(7,344,730)	(6,391,183)
Net Property and Equipment	$11,307,584	$10,269,821

Depreciation and amortization amounted to $953,581 and $759,273 in 2018 and 2017, respectively.

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following at June 30:

	2018	2017
Note payable to a bank, payable in monthly installments of $8,488 including interest at 3.95% through December 1, 2035. This note is secured by a mortgage and essentially all assets of the Organization.	$1,275,623	$1,329,415
Note payable to a bank, up to $1,317,000, payable in monthly installments of $7,988 (interest only in 2017) including interest at 3.95% through May 22, 2037. This note is secured by a mortgage and essentially all assets of the Organization.	997,549	796,296
Note payable to a bank, payable in monthly installments of $4,399 including interest at 3.95% through December 1, 2035. This note is secured by a mortgage and essentially all assets of the Organization.	669,548	694,966
Note payable to ODMH, due at various times through January 2038. Monthly installments of $1,388.89 including interest at 0%, are forgiven by ODMH. Secured by a mortgage on the properties.	494,444	-0-
Note payable to a bank, payable in monthly installments of interest only at 3.95% through June 22, 2017. Thereafter, payable in monthly installments of $11,531 including interest at 3.95% through June 22, 2022. This note is secured by a mortgage and essentially all assets of the Organization.	468,680	585,729
Notes payable to ODMH, due at various times through April 2034. Monthly installments of $2,565 including interest at 0%, are forgiven by ODMH. Secured by a mortgage on the properties.	178,612	209,395
Notes payable to the City of Bowling Green, due June 2022. Monthly installments of $225 including interest at 0%, are forgiven by the City. Secured by a mortgage on the properties.	9,303	12,008
Subtotal	4,093,759	3,627,809
Less: Current Portion of Notes Payable	(306,781)	(285,703)
Net Long-Term Portion of Notes Payable	$3,786,978	$3,342,106

NOTE 7 – NOTES PAYABLE, Continued

Partial funding for certain of the Organization's buildings was provided by the Ohio Department of Mental Health through non-interest bearing loans that are forgivable over forty years, provided the Organization continues to use the building for mental health services. The Organization recognized revenue of $36,339 and $31,482 in 2018 and 2017, respectively, to record the forgiveness of the loans.

The Organization performed repairs on certain property with funds provided by the City of Bowling Green through non-interest bearing loans that are forgivable over a period of seven years, based on certain conditions. The Organization recognized revenue in the amount of $2,705 and $2,661 in 2018 and 2017, respectively, to record the forgiveness of the loans.

The aggregate maturities of mortgages payable as of June 30, 2018 are as follows:

Year Ending June 30	Total
2019	$ 306,781
2020	314,642
2021	312,434
2022	266,992
2023	183,501
2024 and thereafter	2,709,409
Total	$4,093,759

NOTE 8 – LINE OF CREDIT

The Organization has a $3,000,000 demand line of credit from a bank for its working capital requirements. Interest on amounts borrowed is payable monthly at .5% below the bank's prime rate (effective rate of 4.5% and 3.75% at June 30, 2018 and 2017, respectively). The line is secured by substantially all assets of the Organization. Amounts borrowed under this line were $-0- at June 30, 2018 and 2017. This line of credit agreement contains restrictive covenants, among others, relating to maintaining a certain level of tangible net worth.

The Organization has a standby letter of credit in the amount of $26,000 supporting accounts payable to a state unemployment insurance agency which expires on December 31, 2019.

NOTE 9 – RELATED PARTY TRANSACTIONS

One of the Organization's board members is an employee of Signature Bank which holds the Organization's bank accounts.

The Organization conducts business with an entity related through shared ownership in Lifestream, Inc. For the fiscal years ended June 30, 2018 and 2017, the Organization paid this entity $281,991 and $771,005 in administrative fees for the self-funded health insurance plan. The Organization also billed this entity $3,561,311 and $3,918,547 in program service fees for the years ended June 30, 2018 and 2017, respectively, of which $303,334 and $677,402, respectively, are included in public support and program service fee receivables in the accompanying consolidated statements of financial position at such dates.

Harbor, through Behavioral Connections of Wood County, Inc., serves as a "sponsorship organization" for three HUD supported housing projects. During fiscal years 2018 and 2017, Harbor charged $23,506 and $23,777, respectively, in management fees and $25,832 and $21,558, respectively, for expense reimbursement from these projects. At June 30, 2018 and 2017, amounts outstanding from the HUD projects totaled $37,020 and $60,476, respectively, and is included in grants and other receivables in the accompanying consolidated statements of financial position.

NOTE 10 - CONTRIBUTED RENT

On January 5, 2005, the Organization entered into a lease agreement with The Toledo Hospital for the use of office space at the Toledo Children's Hospital. The lease allowed for annual lease extensions, which expired on December 31, 2012. The Organization continued to lease this space on a month to month basis through October 2017. Substantially all of the rental expense associated with this lease has been donated by the landlord. The fair value of this donated rent amounted to $78,743 and $269,976 in 2018 and 2017, respectively, and is reflected as contributed rent and program services expense in the accompanying consolidated statements of activities.

The Organization has a similar donated rent arrangement with Toledo Public Schools for the use of classroom space at two of its school facilities. The fair value of this donated rent amounted to $438,192 in both 2018 and 2017, and is reflected as contributed rent and program services expense in the accompanying consolidated statements of activities.

NOTE 11 – OPERATING LEASES

The Organization leases office space, excluding contributed rent (Note 10), and certain equipment under non-cancelable operating leases expiring on various dates through fiscal year 2027.

NOTE 11 – OPERATING LEASES, Continued

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018:

Year Ending June 30	Amount
2019	$262,200
2020	225,000
2021	91,200
2022	80,800
2023	60,000
2024 and Thereafter	190,000
Total	$909,200

Total rent expense, excluding contributed rental space, was approximately $880,500 and $1,288,800 for the years ended June 30, 2018 and 2017.

NOTE 12 – UNEMPLOYMENT COMPENSATION

The Organization is self-insured for unemployment insurance benefits. Harbor pays benefits as the obligation is incurred. Behavioral Connections of Wood County, Inc.'s claims were administered by a third-party trustee. This agreement was terminated April 1, 2018. Funds on deposit with the trustee available to pay benefits were $87,596 and $104,762 as of June 30, 2018 and 2017, respectively.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

Effective January 1, 2008, Harbor adopted a 403(b) plan for the benefit of eligible employees. Eligible employees may defer a portion of their salary to the 403(b) plan. Effective January 1, 2016, Harbor makes a safe harbor matching contribution equal to 100% of the participant's elective deferrals that do not exceed 6% of compensation for employees who are not covered by the collective bargaining agreement with the UFCW. Employees who are covered by the collective bargaining agreement with the UFCW received matching contributions of 100% of their deferral up to 2% of their eligible compensation through December 31, 2017. Effective January 1, 2018, UFCW employees receive matching contributions of 100% of their deferral up to 6% of their eligible compensation.

Total contributions to the plan was $802,156 and $746,779 for the years ended June 30, 2018 and 2017, respectively, and is included in employee fringe benefits in the accompanying consolidated statements of functional expenses.

NOTE 13 - EMPLOYEE BENEFIT PLANS, Continued

Defined Benefit Plan

Prior to January 1, 2004, the Organization's employees participated in the Employee Benefits Plan of United Way of Greater Toledo and Affiliated Agencies (the Plan), a defined benefit pension plan sponsored by the United Way of Greater Toledo. Effective January 1, 2004, the United Way of Greater Toledo amended the Plan to freeze participant benefit accruals as of December 31, 2003.

The defined benefit retirement plan is an Eligible Charity Plan (ECP) and is not subject to the minimum funding standards contained in the Pension Protection Act of 2006 (PPA) until the earlier of (a) the first plan year beginning after January 1, 2017, or (b) the first plan year for which the Plan ceases to be an ECP. At June 30, 2018 and 2017, the value of the defined benefit plan's assets was less than the defined benefit plan's liabilities. The liability represents the present value of the accumulated plan benefits computed using certain interest rate assumptions that are prescribed by the PPA. The funding is determined by the actuary and is allocated based on employee liability among United Way and the participating agencies. In addition, the Organization may be required to provide additional funding to the extent that other participating affiliates do not meet their obligations related to these contributions. Contributions were required to be made to the Plan for 2018 and 2017 in amounts necessary to meet or exceed the minimum funding requirement. Based on these provisions, the Organization was required to make a pension contribution of $300,049 and $297,364 for 2018 and 2017, respectively. Contributions payable were $149,277 and $147,682 as of June 30, 2018 and 2017, respectively.

Deferred Compensation Plan

The Organization has an Internal Revenue Code §457(b) nonqualified executive deferred compensation plan for eligible executives as designated and approved by the Board. The employee determines annual salary deferrals. The liability associated with this plan has been recorded at an amount equal to the fair value of the assets designated to pay the benefits under the plan. The fair value of the investments designated to pay the benefits was $196,621 and $79,358 as of June 30, 2018 and 2017, respectively, and are included in investments in the accompanying consolidated statements of financial position. Such assets are subject to the claims of the general creditors of the Organization.

NOTE 14 - DEPOSIT – CAPTIVE INSURANCE COMPANY

The Organization has invested $15,075 in a captive insurance company which entitles the Organization to purchase liability insurance at competitive rates. The deposit is included in other assets in the accompanying statements of financial position.

NOTE 15 – NATURE AND AMOUNT OF RESTRICTED NET ASSET BALANCES

The following net assets as of June 30 are available or restricted for the following purposes or periods:

	2018	2017
Permanently restricted:		
Laha Trust	$ 95,834	$ 91,095
Sturdivant Trust	35,747	35,747
Total Permanently restricted	$131,581	$126,842

NOTE 16 – LIFESTREAM, LLC JOINT OPERATING COMPANY

Harbor and its wholly owned affiliate, Behavioral Connections of Wood County, Inc. and ProMedica Physicians and Continuum Services (PPCS), a non-profit organization and affiliate of ProMedica Health System, Inc., formed a joint operating company, Lifestream, LLC, for the purpose of providing behavioral health services in northwest Ohio. Harbor and PPCS each have a 50% membership interest in Lifestream, LLC and share equally in all profits and losses of the joint operating company.

All behavioral health services, excluding Telehealth services, are provided by Lifestream, LLC. Pursuant to contract, Harbor is responsible for all management and administrative functions of Lifestream, LLC and provides employee staffing to Lifestream, LLC on a reimbursement basis.

Lifestream, LLC utilizes the Harbor tradename in the conduct of its operations.

Effective July 1, 2018, Lifestream agreed to redeem PPCS' 50% interest in Lifestream for a cash payment of $6,624,930. Following the redemption, PPCS shall cease to be a member of Lifestream and Harbor owns 100% of the net assets of Lifestream.

NOTE 17 – CHANGES IN NET ASSETS

The following summarizes the net assets of the Organization and the net assets of the noncontrolling interest in the consolidated affiliate for the years ended June 30:

2018

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Harbor Net Assets	Noncontrolling Interest	Total
Beginning Balance	$14,048,327	$-0-	$126,842	$14,175,169	$7,588,769	$21,763,938
Change in Net Assets	(625,255)	-0-	4,739	(620,516)	(875,729)	(1,496,245)
Ending Balance	$13,423,072	$-0-	$131,581	$13,554,653	$6,713,040	$20,267,693

NOTE 17 – CHANGES IN NET ASSETS, Continued

2017

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Harbor Net Assets	Noncontrolling Interest	Total
Beginning Balance	$15,393,375	$2,907	$120,699	$15,516,981	$8,152,343	$23,669,324
Change in Net Assets	(1,345,048)	(2,907)	6,143	(1,341,812)	(563,574)	(1,905,386)
Ending Balance	$14,048,327	$-0-	$126,842	$14,175,169	$7,588,769	$21,763,938

The noncontrolling interest in Lifestream, Inc. represents the portion not attributable directly or indirectly to Harbor, Behavioral Connections of Wood County, Inc., Beacon Telehealth, LLC and Lighthouse Telehealth, LLC.

NOTE 18 – CONTINGENCIES

The Organization underwent an audit of its Medicaid services from January 1, 2013 through December 31, 2015. Per the audit report issued by the Ohio Auditor of State and accepted by the Ohio Department of Medicaid, an adjudication order in the amount of $806,336 has been issued against Harbor. While the ultimate outcome has not been determined, the Organization has accrued an estimated loss of $884,874 including interest of $78,538, which is included in Medicaid liability in the accompanying consolidated statement of financial position at June 30, 2018.

The Organization receives financial assistance from various governmental agencies in the form of grants and contracts. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and contracts, and are subject to audit by the grantor and contracting agencies. The Organization also bills Medicaid for patient services. Amounts billed under the Medicaid program are subject to administrative compliance requirements and are subject to audit and adjustment. Any disallowed claims resulting from such audits could become a liability of the Organization. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Organization at June 30, 2018.

HARBOR
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

FEDERAL GRANTOR *Pass-Through Grantor* Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Substance Abuse and Mental Health Services: Projects of Regional and National Significance	93.243	N/A	$ 384,724
Passed through Mental Health and Recovery Services Board of Lucas County:			
Federal Opiod STR - Ambulatory Detox Startup	93.788	N/A	14,365
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	410,000
TANF Cluster:			
Passed through Lucas County Job and Family Services:			
Temporary Assistance to Needy Families (TANF)			
Work Experience Program (WEP)	93.558	48-17-TANF-20	205,215
Work Experience Program (WEP)	93.558	48-18-TANF-20	538,983
Passed through Lucas County Department of Planning and Development:			
TANF Out of School Youth	93.558	G1617-15-0813	1,024,065
TANF Out of School Youth	93.558	TANF 17-939	1,811,178
Total TANF Cluster			3,579,441
Total U.S. Department of Health and Human Services			4,388,530
U.S. DEPARTMENT OF LABOR			
Passed through Lucas County Workforce Development Agency:			
WIA/WIOA Cluster:			
WIA Youth Activities	17.259	48-18-WDA-01	684,926
Total WIA/WIOA Cluster			684,926
Total U.S. Department of Labor			684,926
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 5,073,456

"The Accompanying Notes are an Integral Part of This Schedule"

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) reports Harbor's (a nonprofit organization) federal award programs' disbursements. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The schedule has been prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. Pass Through Entity identifying numbers are presented where available.

Weber Clark
Certified Public Accountants | Strategic Advisors

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Harbor
P.O. Box 8970
Toledo, Ohio 43623-0970

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Harbor (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Harbor's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harbor's internal control. Accordingly, we do not express an opinion on the effectiveness of Harbor's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harbor's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Harbor's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harbor's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilson Clarke Ltd.

October 30, 2018

Weber Clark
Certified Public Accountants | Strategic Advisors

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Harbor
P.O. Box 8970
Toledo, Ohio 43623-0970

Report on Compliance for Each Major Federal Program

We have audited Harbor's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Harbor's major federal programs for the year ended June 30, 2018. Harbor's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Harbor's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harbor's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harbor's compliance.

Opinion on Each Major Federal Program

In our opinion, Harbor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Harbor is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harbor's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harbor's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Nelson Clarke Ltd.

October 30, 2018

HARBOR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	______ yes	X no
Significant deficiency(ies) identified?	______ yes	X none reported
Noncompliance material to financial statements noted?	______ yes	X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	______ yes	X no
Significant deficiency(ies) identified?	______ yes	X none reported

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

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

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
	TANF Cluster:
93.558	Temporary Assistance to Needy Families

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low risk auditee?	X Yes	______ No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

HARBOR
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

NONE