

HEALTHCARE SERVICES GROUP INC

Form 11-K

June 25, 2007

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 11-K
ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2006
Commission File Number 0-120152
HEALTHCARE SERVICES GROUP, INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania

23-2018365

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification number)

3220 Tillman Drive-Suite 300, Bensalem, Pennsylvania 19020

(Address of principal executive office)

(Zip code)

Registrant's telephone number, including area code: 215-639-4274

INDEX

| Description | Page |
|---|-------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 2 |
| Financial Statements: | |
| <u>Statements of Net Assets Available for Benefits</u> | 3 |
| <u>Statements of Changes in Net Assets Available For Benefits</u> | 4 |
| <u>Notes to Financial Statements</u> | 5-9 |
| Supplemental Schedule: | |
| <u>Schedule of Assets (Held At End of Year)</u> | 10 |
| <u>Signatures</u> | 11 |
| <u>Certifications</u> | 12-15 |

Table of Contents

Report of Independent Registered Public Accounting Firm

Plan Administrator:

Healthcare Services Group, Inc. Retirement Savings Plan

We have audited the accompanying statements of net assets available for benefits of Healthcare Services Group, Inc. Retirement Savings Plan (the Plan) as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at the end of year) as of December 31, 2006 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GRANT THORNTON LLP

Edison, New Jersey

June 15, 2007

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Statements of Net Assets Available for Benefits
December 31,

| | 2006 | 2005 |
|-----------------------------------|---------------------|--------------|
| Assets | | |
| Investments at fair value | \$ 1,737,725 | \$ 1,551,867 |
| Receivables: | | |
| Participant contributions | 7,096 | 7,401 |
| | | |
| Net Assets Available for Benefits | \$ 1,744,821 | \$ 1,559,268 |

The accompanying notes are an integral part of these statements.

-3-

Table of Contents

Healthcare Services Group, Inc.
 Retirement Savings Plan
Statements of Changes in Net Assets Available for Benefits
 For The Year Ended December 31,

| | 2006 | 2005 |
|--|---------------------|--------------|
| Additions: | | |
| Contributions: | | |
| Participant contributions | \$ 225,716 | \$ 222,229 |
| Rollover contributions | 1,983 | |
| | 227,699 | 222,229 |
| Earnings on Investments: | | |
| Interest and Dividends | 60,341 | 39,817 |
| Net appreciation in fair value of investments | 132,405 | 96,536 |
| Total Additions | 420,445 | 358,582 |
| Deductions: | | |
| Benefit payments | (234,892) | (145,785) |
| Net Increase | 185,553 | 212,797 |
| Net assets available for benefits, beginning of year | 1,559,268 | 1,346,471 |
| Net assets available for benefits, end of year | \$ 1,744,821 | \$ 1,559,268 |

The accompanying notes are an integral part of these statements.

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements
December 31, 2006 and 2005

Note A.-Description Of Plan

The following description of the Healthcare Services Group, Inc. Retirement Savings Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan s provisions.

1. *General*

The Plan commenced October 1, 1999 and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan is a defined contribution plan covering all non-highly compensated salaried employees who have one year of service (1,000 hours) and have attained the age of twenty-one or older with the exception employees whose employment is governed by a collective bargaining agreement.

2. *Contributions*

Each year, participants may contribute up to 15% of their pretax annual compensation as defined in the Plan. There are no employer-matching contributions as defined in the Plan. A participant may elect to commence salary reductions as of the first day of the month coinciding with the date the employee satisfied the eligibility requirements. Participants may also rollover to the plan amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions into various options offered by the Plan.

Contributions are subject to certain limitations.

3. *Participant Accounts*

Each participant s account is credited with the participant s contribution and allocations of Plan earnings. Allocations are determined by the participant. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

4. *Vesting*

Participants are vested immediately in their contributions plus actual earnings thereon.

5. *Administrative Expenses*

All administrative expenses were paid by the plan sponsor, Healthcare Services Group, Inc.

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005

Note A. (continued)

6. *Benefit Payments*

On termination of service due to death or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account or monthly, quarterly, semi-monthly or annual installments. No disability benefits, other than those payable upon termination of employment, are provided in the Plan. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump sum distribution.

A Participant who has attained the age of 59 1/2 years may elect to receive a distribution of all or a portion of the vested amounts then credited to the Participant's account. The Participant will still continue to be eligible to participate in the Plan.

A Participant may elect to receive an advance distribution for hardship under certain conditions as defined in the Plan and as subject to the evaluation of the Plan Administrator based on whether certain conditions have been satisfied.

Note B.-Summary of Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

2. *Investment Valuation and Income Recognition*

The Plan's investments are stated at fair value, which approximates market value, as reported to the Plan by PNC Financial Services Group (PNC). Quoted market prices are used to value investments. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year-end. Purchases and sales of securities are recorded on a trade-date basis.

3. *Benefit Payments*

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005

Participants' withdrawals are recorded when paid.

Note C.-Investments

The following presents investments that represent 5 percent or more of the Plan's net assets as of:

| | December 31, | |
|--|---------------------|---------------------|
| | 2006 | 2005 |
| Fidelity Advisor Equity Income Fund | \$ 172,916 | \$ 137,023 |
| Growth Fund of America | 116,197 | 119,469 |
| Janus Adviser Forty Fund | 150,057 | 138,841 |
| Janus Adviser Lg Cap Growth Fund | * | 83,452 |
| Healthcare Services Group, Inc. common stock | 148,970 | 133,574 |
| MFS Intl New Discovery | 115,070 | * |
| Black Rock Money Market Fund (PNC; Note E) | 504,735 | 475,145 |
| | \$ 1,207,945 | \$ 1,087,504 |

* Balance did not represent at least 5% of Net Plan Assets

During 2006 and 2005, the Plan's investments (including realized and unrealized gains and losses) appreciated in value by \$132,405 and \$96,536, respectively as follows:

| | December 31, | |
|--|-------------------|------------------|
| | 2006 | 2005 |
| Mutual Funds | \$ 71,037 | \$ 21,843 |
| Healthcare Services Group, Inc. common stock | 39,722 | 63,328 |
| Money Market Fund (PNC; Note E) | 21,646 | 11,365 |
| | \$ 132,405 | \$ 96,536 |

Note D.-Plan Termination

Although it has not expressed intent to do so, the Company has the right under the Plan to terminate the Plan at any time subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005

Note E.-Party-In-Interest Transactions

Certain Plan investments are shares of a money market fund managed by PNC. PNC is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

In addition, certain plan investments are shares of the Healthcare Services Group, Inc. common stock. Healthcare Services Group, Inc. is the Plan sponsor as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. The Plan held 5,144.0000 and 6,449.7252 shares of Healthcare Services Group, Inc. common stock with a quoted market value of \$148,970 and \$133,574 at December 31, 2006 and 2005, respectively.

Note F.-Plan Amendment

An amendment effective September 18, 2006 was made to certain sections of the plan to allow employees of Summit Services Group, Inc. (Summit) to participate in the plan. Summit was acquired by the plan sponsor, Healthcare Services Group, Inc., in September 2006. The service time while employed by Summit of any otherwise eligible employee of Summit at September 16, 2006 will be counted towards the year of service requirement as stipulated in the plan.

Note G.-Tax Status Of Plan

The Internal Revenue Service has determined and informed the Company by a letter dated March 7, 2001, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, an amendment that was required by IRS regulations to have been adopted by December 31, 2005 was not adopted until July 5, 2006. The Plan applied to the IRS under the Voluntary Correction Program to remedy this violation. The submission was accepted by the IRS on January 22, 2007 and no sanctions were imposed. Except for the violation noted above, the Plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan s financial statements.

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005

Note H.-Risks And Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

-9-

Table of Contents

Healthcare Services Group, Inc.
 Retirement Savings Plan
Schedule Of Assets (Held At End Of Year)
 Schedule H, Line 4i of Form 5500

| (a) Party-In- Interest | (b) Identity of Issue | (c) Description of Investment | (e) Current Value |
|------------------------------|---|-------------------------------------|-------------------------|
| | AIM Dynamics Fund Cl A | Mutual Fund | \$ 25,927 |
| | AIM Global Health Care Fund | Mutual Fund | 32,148 |
| | AIM High Yield Fund Cl A | Mutual Fund | 9,145 |
| | AIM Technology Fund Cl A | Mutual Fund | 26,555 |
| | American Balanced Fund | Mutual Fund | 48,110 |
| | American Beacon Sm Cap Value | Mutual Fund | 11,964 |
| | American Century Sm Cap Value | Mutual Fund | 14,446 |
| | American Century Value Fund | Mutual Fund | 25,734 |
| | BlackRock GNMA Fund Cls A | Mutual Fund | 7,173 |
| | BlackRock Managed Inc Fund Cls A | Mutual Fund | 15,867 |
| * | BlackRock Money Market (PNC) | Money Market Fund | 504,735 |
| | Federated High Income Bond Fund | Mutual Fund | 25,089 |

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| | | | |
|---|--|--------------|--------------|
| | Federated Stock Trust | Mutual Fund | 67,653 |
| | Fidelity Advisor Equity Growth | Mutual Fund | 77,396 |
| | Fidelity Advisor Equity Income Growth Fund of America | Mutual Fund | 172,916 |
| * | Healthcare Services Group | Common Stock | 116,197 |
| * | Healthcare Services Stock Liquidity Income Fund of America | Cash | 148,970 |
| | Janus Adviser Forty Fund | Mutual Fund | 541 |
| | Janus Adviser Lg Cap Growth Fund | Mutual Fund | 46,139 |
| | MFS Int 1 New Discovery Fund | Mutual Fund | 50,168 |
| | MFS New Endeavor Fund | Mutual Fund | 115,070 |
| | Royce Low Priced Stock Fund | Mutual Fund | 2,440 |
| | Royce Opportunity Fund | Mutual Fund | 27,816 |
| | | | 15,469 |
| | | | \$ 1,737,725 |

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Healthcare Services Group, Inc. Retirement
Savings Plan

Date: June 15, 2007

/s/ James L. DiStefano

By: James L. DiStefano

Title: Chairman of Plan Committee

-11-

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005

CERTIFICATION :

I, Daniel P. McCartney, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Healthcare Services Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation and;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors.
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date : June 15, 2007

/s/ Daniel P. McCartney

Daniel P. McCartney
Chief Executive Officer
-12-

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005

I, Richard W. Hudson, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Healthcare Services Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation and;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors.
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date : June 15, 2007

/s/ Richard W. Hudson
Richard W. Hudson

Chief Financial Officer

-13-

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Healthcare Services Group, Inc. Retirement Savings Plan on Form 11-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the Form 11-K), I, Daniel P. McCartney, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 11-K fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Form 11-K fairly presents, in all material respects, the financial condition and results of operations of the Plan.

/s/ Daniel P. McCartney
Daniel P. McCartney
Chief Executive Officer
June 15, 2007

Table of Contents

Healthcare Services Group, Inc.
Retirement Savings Plan
Notes To Financial Statements (continued)
December 31, 2006 and 2005
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Healthcare Services Group, Inc. Retirement Savings Plan on Form 11-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the Form 11-K), I, Richard W. Hudson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

3. The Form 11-K fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
4. The information contained in the Form 11-K fairly presents, in all material respects, the financial condition and results of operations of the Plan.

/s/ Richard W. Hudson
Richard W. Hudson
Chief Financial Officer
June 15, 2007

-15-