

Boston Public Health Commission

**Report on Federal Awards in
Accordance with OMB Circular A-133
June 30, 2010
EIN 043316655**

Boston Public Health Commission
Report on Federal Awards in Accordance with OMB Circular A-133
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June 30, 2010

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Boston Public Health Commission
Report on Federal Awards in Accordance with OMB Circular A-133
Year Ended June 30, 2010

INTRODUCTION

The Boston Public Health Commission is awarded funds directly from the federal government and as passthrough funds from prime recipients. Prior to fiscal year 2010, Boston Medical Center provided administrative assistance to the Boston Public Health Commission in the processing and recordkeeping of the funds awarded by the federal government. In fiscal year 2010, all administrative services were performed by employees of the Boston Public Health Commission.

PART I

**FINANCIAL STATEMENTS – PROVIDED IN A
SEPARATE DOCUMENT BY KPMG LLP**

PART II
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



Report of Independent Auditors

The Board of Commissioners of the
Boston Public Health Commission

In our opinion, the accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents fairly, in all material respects, the expenditures of federal awards by the Boston Public Health Commission for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America. The Schedule is the responsibility of the Boston Public Health Commission's management and was prepared for the purpose of complying with U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Our responsibility is to express an opinion on the Schedule based on our audit. We did not audit the financial statements of the Boston Public Health Commission for the year ended June 30, 2010. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Boston Public Health Commission, is based solely on the report of the other auditors. We conducted our audit of the Schedule 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 Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, and evaluating the overall presentation of the Schedule. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

We previously issued our Report of Independent Auditors dated May 18, 2011 in which we expressed an unqualified opinion on the Boston Public Health Commission's major programs. Subsequent to the issuance of that report, management revised the accompanying Schedule to correct a CFDA number for two awards, resulting in the addition of another program being designated as a Type A program, Homeland Security Grant Program (Pass-through from the Commonwealth of Massachusetts), CFDA #97.067.

PricewaterhouseCoopers LLP

May 18, 2011, except as described in Note 1 for which the date is September 19, 2011

Boston Public Health Commission
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

	Federal CFDA Number	Pass-Through Number	Federal Expenditures
Department of Health and Human Services			
HIV Emergency Relief Project Grants (B)	93.914		\$ 11,876,612
Healthy Start Initiative	93.926		2,052,094
Assistance Programs for Chronic Disease and Control (Pass through from Harvard School of Public Health)	93.945	NA	9,423
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		1,622,195
Substance Abuse and Mental Health Services - Projects of Regional and National Significance (Pass-through from the MA Department of Revenue)	93.243	CTDOR NT2005	15,071
Substance Abuse and Mental Health Services - Projects of Regional and National Significance (Pass-through from the Commonwealth of Massachusetts)	93.243	INTF3121M04W01315008	23,882
Substance Abuse and Mental Health Services - Projects of Regional and National Significance (Pass-through from Boston Medical Center)	93.243	INTF2330M04W76112076	<u>93,445</u>
CFDA Subtotal	93.243		<u>1,754,593</u>
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) (Pass-through from Commonwealth of Mass)	93.104	CT EHSOBOSTONPUBLISAMHSALC	108,862
Centers for Disease Control and Prevention_ Investigations and Technical Assistance (B)	93.283		1,481,275
Centers for Disease Control and Prevention - Investigations and Technical Assistance (B) (Pass-through from the Commonwealth of Massachusetts)	93.283	INTF2902M03704808061	598
Centers for Disease Control and Prevention - Investigations and Technical Assistance (B) (Pass-through from the Commonwealth of Massachusetts)	93.283	INTF4300M04805809032	<u>(470)</u>
CFDA Subtotal	93.283		<u>1,481,403</u>
Part E - Developing, Testing and Demonstrating Promising New Programs (Pass-through from the City of Boston) - ARRA	16.541	2009-JL-FX-0192	61,912
Recovery Act - Edward Byrne Memorial Competitive Grant Program (Pass-through from the City of Boston) - ARRA	16.808	2009-SC-B9-0069	36,448
Public Health Emergency Preparedness (Pass-through from the Commonwealth of Massachusetts)	93.069	RFR 903418	1,881,330
State Capacity Building	93.240		117,038
Immunization Grants (Pass-through from Suffolk County Sherrif's Office)	93.268	NA	66,047
Immunization Grants (Pass-through from the Commonwealth of Massachusetts)	93.268	52635307024	<u>65,001</u>
CFDA Subtotal	93.268		<u>131,048</u>
Block Grants for Prevention and Treatment of Substance Abuse (Pass-through from the Commonwealth of Massachusetts)	93.959	23484357019	1,158,452
Maternal and Child Health Services Block Grant to the States (Pass-through from the Commonwealth of Massachusetts)	93.994	INTF900MM3701516136	456,259
Area Health Education Centers Point of Service Maintenance and Enhancement Awards (Pass-through from University of Massachusetts)	93.107	2U77HP03016-11-00	33,633
AIDS Education and Training Centers (Pass-through from University of Massachusetts)	93.145	607344/ect-10	16,746
Special Projects of National Significance (Pass-through from Boston University)	93.928	2501-7	24,129
Geriatric Education Centers (Pass-through from Commonwealth of Massachusetts)	93.969	SCDPH231853620220000	318,691
Geriatric Education Centers (Pass-through from Commonwealth of Massachusetts)	93.969	SCDPH230153580900000	<u>97,340</u>
CFDA Subtotal	93.969		<u>416,031</u>

The accompanying notes are an integral part of this schedule.

Boston Public Health Commission
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

	Federal CFDA Number	Pass-Through Number	Federal Expenditures
Department of Health and Human Services (Continued)			
Centers for Research and Demonstration for Health Promotion and Disease Prevention (Pass-through from Boston University)	93.135	NA	31,243
Adolescent Family Life - Demonstration Projects (Pass-through from Childrens Hospital)	93.995	6 APHPA002033-06-01 APHPA002033-08-00	14 <u>30,063</u>
CFDA Subtotal	93.995		<u>30,077</u>
Healthy Homes Demonstration Grants	14.901		20,212
Emergency Shelter Grants (Pass-through from the Commonwealth of Massachusetts)	14.231	CTOCD800HSESHLO1200	140,980
Emergency Shelter Grants (Pass-through from the City of Boston)	14.231	13776-04	<u>35,223</u>
CFDA Subtotal	14.231		<u>176,203</u>
Homelessness Prevention and Rapid Re-Housing Program (Pass-through from the Commonwealth of Massachusetts) - ARRA	14.257	CTOCDFY10ARRAHRPP-BHH1001	30,853
Housing Opportunities for Persons with AIDS (Pass-through from the City of Boston)	14.241	C-20547-07	73,116
Supportive Housing Program (Pass-through from the City of Boston)	14.235	24544-08	103,513
Supportive Housing Program (Pass-through from the City of Boston)	14.235	24461-08	86,081
Supportive Housing Program (Pass-through from the City of Boston)	14.235	11575-03	(570)
Supportive Housing Program (Pass-through from the City of Boston)	14.235	11578-04	<u>204,002</u>
CFDA Subtotal	14.235		<u>393,026</u>
National Bioterrorism Hospital Preparedness Program	93.889		1,846
Bilingual/Bicultural Service Demonstration Grants	93.105		146,376
Community Services Block Grant (Pass-through from ABCD) - ARRA	93.710	6980	19,968
Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement - ARRA	93.724		138,654
Trans-NIH Recovery Act Research Support (Pass-through from the Commonwealth of Massachusetts) - ARRA	93.701	INTF3056J50ARRA03012	3,391
National Network of Libraries (Pass-through from the Umass Worcester) - ARRA	93.unknown	6112779/RFS900146	<u>696</u>
Total Department of Health and Human Services			<u>22,681,674</u>
Environmental Protection Agency			
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		105,455
Community Action for a Renewed Environment (CARE) Program	66.035		<u>21,636</u>
Total Environmental Protection Agency			<u>127,091</u>
Department of Homeland Security			
Non-Profit Security Program (Pass-through from the City of Boston)	97.008	NA	360
Homeland Security Grant Program (Pass-through from the Commonwealth of Massachusetts)	97.067	80004692	163,259
Homeland Security Grant Program (Pass-through from the Commonwealth of Massachusetts)	97.067	FY2007BostonEMS8004692	38,038
Homeland Security Grant Program (Pass-through from the Commonwealth of Massachusetts)	97.067	C-25901	<u>574,529</u>
CFDA Subtotal	97.067		<u>775,826</u>
Emergency Food and Shelter National Board Program (Pass-through from the Commonwealth of Massachusetts)	97.114	LRO ID 455000-172	<u>20,000</u>
Total Department of Homeland Security			<u>796,186</u>
US General Services Administration			
National Asthma Control Initiative (Pass-through from the AED) - ARRA	unknown	HSN268200800317U	<u>16,736</u>
Total US General Services Administration			<u>16,736</u>
Total Expenditures of Federal Awards			<u>\$ 23,621,687</u>

The accompanying notes are an integral part of this schedule.

Boston Public Health Commission
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of Boston Public Health Commission recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Prior to fiscal year 2010, Boston Medical Center provided administrative assistance to the Boston Public Health Commission for grant awards received from the federal government. The Boston Public Health Commission did not use federal funds to compensate Boston Medical Center for these services. In fiscal year 2010 all administrative services were performed by employees of the Boston Public Health Commission.

We previously issued our Report of Independent Auditors dated May 18, 2011 in which we expressed an unqualified opinion on the Boston Public Health Commission's major programs. Subsequent to the issuance of that report, management revised the accompanying Schedule to correct a CFDA number for two awards. Per review of the general ledger as well as the grant agreement, PwC noted pass-through award #C-25901 with expenditures in the amount of \$574,529 was incorrectly listed under CFDA # 93.067. Its correct CFDA number is 97.067. In addition, PwC noted that pass-through award # 80004692 with expenditures totaling \$163,259 should have been listed under #97.067 as well, per review of the grant award. The expenditures were misclassified within the general ledger under CFDA #93.067. This misclassification resulted in the addition of another program being designated as a Type A program, Homeland Security Grant Program (Pass-through from the Commonwealth of Massachusetts).

2. Indirect Costs

The Department of Health and Human Services has approved a 26.60% indirect cost rate, in effect through June 30, 2010.

3. Subrecipients

Certain federal funds are passed through to subrecipient organizations by Boston Public Health Commission. Expenditures incurred by these subrecipients and reimbursed by Boston Public Health Commission totaled \$11,157,898 for the year ended June 30, 2010 and are presented in the Schedule of Expenditures of Federal Awards.

Boston Public Health Commission
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Program Name	CFDA	Amount
Homelessness Prevention and Rapid Re-Housing Program (Pass-through from the Commonwealth of Massachusetts) - ARRA	14.257	\$ 2,496
Part E - Developing, Testing and Demonstrating Promising New Programs (Pass-through from the City of Boston) - ARRA	16.541	49,095
State Capacity Building	93.240	12,056
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) (Pass-through from Commonwealth of Mass)	93.104	36,827
Bilingual/Bicultural Service Demonstration Grants	93.105	25,430
Area Health Education Centers Point of Service Maintenance and Enhancement Awards (Pass-through from University of Massachusetts)	93.107	6,500
HIV Emergency Relief Project Grants (B)	93.914	10,002,838
Centers for Disease Control and Prevention_Investigations and Technical Assistance (B)	93.283	486,554
Healthy Start Initiative	93.926	171,312
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	216,032
Homeland Security Grant Program (Pass-through from the Commonwealth of Massachusetts)	97.067	7,664
Public Health Emergency Preparedness (Pass-through from the Commonwealth of Massachusetts)	93.069	96,500
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	14,784
Community Action for a Renewed Environment (CARE) Program	66.035	2,379
AIDS Education and Training Centers (Pass-through from University of Massachusetts)	93.145	16,213
National Asthma Control Initiative (Pass-through from the AED) - ARRA	Unknown	11,218
		<u>\$ 11,157,898</u>

PART III

**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 - Provided in
a separate document by KPMG LLP**

PART IV

Report on Compliance and Internal Control



**Report of Independent Auditors on Compliance with Requirements That Could Have
a Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

To the Board of Commissioners of the
Boston Public Health Commission

Compliance

We have audited the compliance of the Boston Public Health Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Boston Public Health Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Boston Public Health Commission's management. Our responsibility is to express an opinion on the Boston Public Health Commission's compliance based on our audit.

We previously issued our Report of Independent Auditors dated May 18, 2011 in which we expressed an unqualified opinion on the Boston Public Health Commission's major programs. Subsequent to the issuance of that report, management revised the accompanying Schedule to correct a CFDA number for two awards, resulting in the addition of another program being designated as a Type A program, Homeland Security Grant Program (Pass-through from the Commonwealth of Massachusetts), CFDA #97.067. Accordingly we have updated our Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the accompanying Schedule of Findings and questioned costs, Parts I and III, to include that program as a major program and finding 2010-05, respectively.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Boston Public Health Commission'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. Our audit does not provide a legal determination of the Boston Public Health Commission's compliance with those requirements.

In our opinion, the Boston Public Health Commission complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-02 - 2010-05.

Internal Control over Compliance

Management of the Boston Public Health Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Boston Public Health Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Boston Public Health Commission'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-02. 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.

The Boston Public Health Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Boston Public Health Commission's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Boston Public Health Commission, Board of Commissioners, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

May 18, 2011, except as described in Note 1 for which the date is September 19, 2011

PART V
FINDINGS AND QUESTIONED COSTS

Boston Public Health Commission
Schedule of Federal Award Findings and Questioned Costs
Year Ending June 30, 2010

I. Summary of Auditors' Results

Financial Statements*

Type of auditors' report issued Unqualified

Internal Control over Financial Reporting*

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial statements noted? No

Federal Awards

Internal Control over Major Programs

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

Identification of major programs

CFDA #	Name of Federal Program or Cluster
93.914	HIV Emergency Relief Project Grants (B)
93.283	Centers for Disease Control and Prevention_ Investigations and Technical Assistance (B)
93.283	Centers for Disease Control and Prevention_ Investigations and Technical Assistance (B) (Pass-through from the Commonwealth of Massachusetts)
93.724	Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement - ARRA
14.231	Emergency Shelter Grants (Pass-through from the Commonwealth of Massachusetts)
14.231	Emergency Shelter Grants (Pass-through from the City of Boston)
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) (Pass-through from Commonwealth of Mass)
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act
97.067	Homeland Security Grant Program (Pass-through from the Commonwealth of Massachusetts)

Boston Public Health Commission

Schedule of Federal Award Findings and Questioned Costs, Continued

Dollar threshold used to distinguish between Type A and Type B programs	\$708,651
Auditee qualified as low-risk auditee?	Yes

* The Financial Statements of the Boston Public Health Commission were audited by KPMG LLP who issued their Independent Auditor's Report thereon and this 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* dated November 9, 2010.

II. Financial Statement Findings

2010-01

The report of compliance and internal controls in accordance with *Government Auditing Standards* as issued by KPMG LLP, the auditor of the Public Health Commission financial statements, does reference findings. Refer to the 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* - Provided in a separate document by KPMG LLP.

III. Federal Award Findings and Questioned Costs

2010-02 OMB Circular A-133 Reporting – Significant Deficiency

Per OMB Circular A-133, paragraph 320 (a), the data collection form and reporting package "shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit." The Boston Public Health Commission was not able to meet the deadline of March 31, 2011 for submission of the Report on Federal Awards in accordance with OMB Circular A-133 audit.

Cause

The Boston Public Health Commission had not established a sufficient reporting process, including the preparation and organization of supporting documents for the A-133 audit.

Effect

The Boston Public Health Commission was not able to meet the March 31, 2011 deadline for submission of the Report on Federal Awards in accordance with OMB Circular A-133. Therefore, for fiscal year 2011 and 2012 the Boston Public Health Commission will be designated a high risk auditee as required by OMB Circular A-133.

Recommendation

We recommend the Boston Public Health Commission improve its controls over the process for preparing for the annual A-133 audit. This will ensure that the Report on Federal Awards in accordance with OMB Circular A-133 can be filed timely.

Management's Views and Corrective Action Plan

Management's Views and Corrective Action Plan is included in this report on page 15.

Boston Public Health Commission

Schedule of Federal Award Findings and Questioned Costs, Continued

2010-03 Record Retention

Department of Health and Human Services (CFDA # 93.104)

Award: CT EHSOBOSTONPUBLISAMHSALC

As part of the fiscal year 2010 audit, PwC requested to review two travel purchases for a total of \$484 and \$727, both relating to CFDA # 93.104. In the support provided by the Boston Public Health Commission, itemized receipts were not retained for food and beverage expenditures totaling approximately \$212. Therefore, PwC was not able to review the appropriateness of these food and beverage expenditures.

Cause

The Boston Public Health Commission had not established sufficient internal controls over the organization and recordkeeping over the reimbursement of expenditures related to federal awards.

Effect

The Boston Public Health Commission does not have itemized receipts or documentation to support these expenditures.

Recommendation

We recommend the Boston Public Health Commission improve its controls over the organization and recordkeeping of supporting documentation and ensure a detailed policy exists so that itemized receipts are retained for federal expenditures. This will ensure the appropriate level of documentation is available to support allowable costs.

Management's Views and Corrective Action Plan

Management's Views and Corrective Action Plan is included in this report on page 15.

2010-04 Reporting

Department of Health and Human Services (CFDA # 93.105)

Award: 1 BBCMP071001-01-00

OMB Circular A-110 Section 52(1)(iv) and 52(2)(iv) require submission of Financial Status Reports ("FSR") and Federal Cash Transaction Reports (FCTR) to the sponsoring agency according to terms set forth on the grant or contract agreement. In addition, it is noted "recipients shall be required to submit not more than the original and two copies of the SF-272 15 calendar days following the end of each quarter. The Federal awarding agency shall require recipients to submit the SF-269 or SF-269A no later than 90 calendar days for annual and final reports". Of the four FSR reports tested, we noted that one report for CFDA number 93.105 was filed one day late.

Cause

It is noted the Boston Public Health Commission did not have an accurate tracking mechanism for reporting due during the fiscal year.

Boston Public Health Commission

Schedule of Federal Award Findings and Questioned Costs, Continued

Effect

The Boston Public Health Commission did not file award information to the federal agency on a timely basis.

Recommendation

We recommend the Boston Public Health Commission implement an efficient tracking mechanism that would improve its procedures over monitoring of grant reporting due dates to ensure that required reports are filed timely and in accordance with grant or contract terms.

Management's Views and Corrective Action Plan

Management's Views and Corrective Action Plan is included in this report on page 16.

2010-05 Reporting

Department of Homeland Security (CFDA # 97.067)

Awards: C-25901 and 80004692

OMB Circular A-110, paragraph 21 requires that an entity's financial management system maintains records that adequately identify the source and application of funds for federally-sponsored activities. Per review of the general ledger as well as the grant agreement, PwC noted pass-through award #C-25901 with expenditures in the amount of \$574,529 was incorrectly listed under CFDA # 93.067. Its correct CFDA number is 97.067. In addition, PwC noted that pass-through award #80004692 with expenditures totalling \$163,259 should have been listed under #97.067 as well, per review of the grant award. The expenditures were misclassified within the general ledger under CFDA #93.067.

Cause

It is noted that the misclassification of award #C-25901 was due to human error. The misclassification of award #80004692 was due to the Boston Public Health Commission not having sufficient internal controls to review the classification of its awards.

Effect

There was a misclassification of two awards within the Schedule of Federal Expenditures. In addition, a major program was not initially identified for testing due to the misclassification.

Recommendation

We recommend that the Boston Public Health Commission improve its controls related to the record keeping and final review of grant awards within the general ledger and Schedule of Federal Expenditures. This will ensure that the final Schedule of Federal Expenditures is complete and accurate.

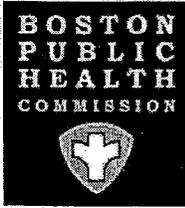
Management's Views and Corrective Action Plan

Management's Views and Corrective Action Plan is included in this report on page 17.

Boston Public Health Commission
Status of Prior Year Findings
Year Ending June 30, 2010

I. Update of Prior Year Federal Award Findings and Questioned Costs

There are no findings from prior years that require a status update.



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Management's Response to the Schedule of Findings and Questioned Costs for the Year Ended June 30, 2010

2010-02 OMB Circular A-133 Reporting

Views

Boston Public Health Commission (BPHC) transitioned all grant, accounting and financial (including external audits) services from Boston Medical Center (BMC) to BPHC during 2010. Transitioning these services and scheduling audit field work created delays in meeting the federal filing deadline. These are non recurring events that Boston Public Health Commission is not expecting to encounter for future audits.

Corrective Action Plan

Boston Public Health Commission is planning to coordinate both its financial and federal audit through one auditor. In the past Boston Public Health Commission engaged the BPHC auditor (KPMG) for the financial audit and the BMC auditor (PWC) for the federal audit. Due to the transition of services from BMC to BPHC this is no longer necessary; BPHC will be able to engage one auditor for both audits.

The scheduling of audit work will also benefit from scheduling the audit from BPHC's audit year end (June 30th) rather than BMC's year end (September 30th), this will allow nine months for audit scheduling and field work rather than six months in the past.

2010-03 Record Retention

Views

BPHC reimburses employee expenses and requires detailed receipts for all expenditures. If detailed receipts are missing or not available, BPHC will require the traveler to "sign off" that no unallowable costs are being claimed for reimbursement. BPHC recognizes that receipts may not be detailed enough to verify compliance with internal policies hence the development of a policy that allows per diem rates that is consistent with other recipients of federal funds.

Corrective Action Plan

BPHC introduced a new travel/conference policy in October 2010. As an alternative to detailed receipts being required for reimbursement of meals and incidentals, staff may use per diem rates set by the Federal General Service Administration for meal and incidentals, complete guidelines are published at www.gsa.gov. Allowability, allocability and reasonableness of expenses still apply to all costs incurred.



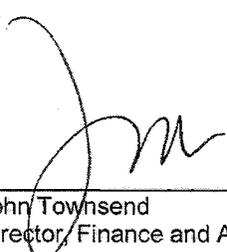
2010-04 – Reporting

Views

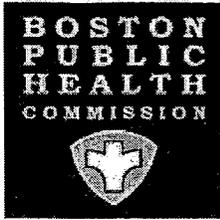
FSR for grant award # BBCM071001-01-00 was submitted a day late. This was a direct result of a delay in programmatic review and sign off by the PI and financial designee.

Corrective Action Plan

We have strengthened our internal controls to ensure this does not happen in the future. Our current policy for reviewing and filing Federal Reports, gives the program staff 10 business day to review and sign off on Federal reports prior submission. These reports are to be submitted to the funding agency either at the end of a budget period or project period, determined by what is stated in the award notification guidelines. However, per Boston Public Health Commission's policy, all financial status reports (FSR) are due 90 days after the budget end date of each grant. The Grants Management office is required to have all FSR/FFR ready for review by programmatic staff 60 at the end of the budget period. The program then has 10 business days to review and sign off prior to submission. This time line for the review process will allow for any necessary adjustments to be made and ensure that all FSR/FFR submissions are timely and accurate.



John Townsend
Director, Finance and Administration



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Management's Response to the Schedule of Findings and Questioned Costs for
the Year Ended June 30, 2010

2010-05 OMB Circular A-133 Reporting

Views

The misclassification of award #80004692 was due to the Boston Public Health Commission not having sufficient internal controls with Boston Medical Center to review the classification of its awards. The Boston Public Health Commission has since moved all grant and grant related functions from Boston Medical Center and will be completely responsible for ensuring awards are classified and provided to the Single auditor.

Corrective Action Plan

Boston Public Health Commission now utilizes Great Plains Project Accounting module to track CFDA numbers for all federal awards at the time of project set up. Each new award is reviewed by the PI, assigned Grant Accountant and the Grants Manager to ensure that all grants are properly classified in the Project Accounting Contract Demographics Section of our accounting system.

A handwritten signature in black ink, appearing to read "John M. Townsend". The signature is written in a cursive style with a large initial "J" and "M".

John M. Townsend
Director, Finance and Administration



THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Financial Statements, Required Supplementary Information,
and Supplementary Schedule

June 30, 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02110-2371

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Independent Auditors' Report

The Board of Commissioners
Boston Public Health Commission:

We have audited the accompanying statement of net assets of the Boston Public Health Commission (the Commission), a component unit of the City of Boston, as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes 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 Commission'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2010, and the changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 3 through 8 and the schedule of OPEB funding progress on page 26 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements referred to above. The supplemental schedule of revenues and expenditures – budgetary basis on page 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2010 on our consideration of the Commission'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 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* and should be considered in assessing the results of our audit.

KPMG LLP

November 9, 2010

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2010

(Unaudited)

The management of the Boston Public Health Commission offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2010.

Financial Statements

Our financial statements are prepared using propriety fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The Commission is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting is used.

The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Footnotes follow the financial statements.

The statement of net assets presents information on the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets reports the operating and nonoperating revenues and expenses of the Commission for the fiscal year with the difference – the net income or loss – being combined with any capital grants to determine the net change in assets for the fiscal year. That change combined with the previous year-end net assets total equals the net assets total at the end of the current fiscal year.

The statement of cash flows reports cash and cash equivalents activity for the fiscal year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current fiscal year.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2010

(Unaudited)

Condensed Financial Information (in thousands)

Condensed financial information from the statements of net assets and revenues, expenses and changes in net assets is presented below:

	<u>2010</u>	<u>2009</u>
Current assets	\$ 54,910	64,995
Capital assets, net	32,535	32,043
Other assets	<u>74,550</u>	<u>82,974</u>
Total assets	<u>161,995</u>	<u>180,012</u>
Current liabilities	25,093	31,691
Long-term liabilities	<u>134,539</u>	<u>135,284</u>
Total liabilities	<u>159,632</u>	<u>166,975</u>
Net assets:		
Invested in capital assets, net	30,231	30,590
Deficit	<u>(27,868)</u>	<u>(17,553)</u>
Total net assets	\$ <u>2,363</u>	\$ <u>13,037</u>
	<u>2010</u>	<u>2009</u>
Operating revenues:		
Revenue from grants	\$ 44,637	47,381
Other	<u>11,886</u>	<u>12,311</u>
Total operating revenues	<u>56,523</u>	<u>59,692</u>
Operating expenses:		
Public Health programs	83,281	85,627
Property operations	7,037	7,487
EMS subsidy	9,894	8,972
EMS Contract Expense	1,030	—
Administration	8,080	7,547
Other postemployment benefits expense	<u>10,568</u>	<u>16,610</u>
Total operating expenses, excluding depreciation	119,890	126,243
Depreciation	<u>4,079</u>	<u>4,251</u>
Total operating expenses, including depreciation	<u>123,969</u>	<u>130,494</u>
Operating loss	<u>(67,446)</u>	<u>(70,802)</u>

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2010

(Unaudited)

	<u>2010</u>	<u>2009</u>
Nonoperating income (expense):		
City appropriation	\$ 70,000	69,446
Assistance grant	(10,750)	(10,750)
Other	<u>(3,231)</u>	<u>(2,954)</u>
Total nonoperating income, net	<u>56,019</u>	<u>55,742</u>
Loss before contributions	(11,427)	(15,060)
Capital contributions	<u>753</u>	<u>5,776</u>
Change in net assets	(10,674)	(9,284)
Net assets, beginning of year	<u>13,037</u>	<u>22,321</u>
Net assets, end of year	<u>\$ 2,363</u>	<u>13,037</u>

The information contained in the condensed financial information table above is used as the basis for the discussion below, surrounding the Commission's activities for the fiscal year ended June 30, 2010.

Financial Highlights

- The Commission ended the year with a net asset balance of \$2.4 million. The largest portion of the Commission's net assets reflects its investment of \$30.2 million, less any related outstanding debt used to acquire those assets. The Commission uses these capital assets to provide services to the residents of Boston.
- The Commission's ending net assets decreased by \$10.7 million from fiscal 2009 to fiscal 2010. This decrease is partly due to the Commission's adoption of GASB Statement No. 45 in fiscal 2008, which continues to require the recognition of an other postemployment benefit (OPEB) obligation on the statement of net assets and expense on the statement of revenues, expenses and changes in net assets.
- The Commission's capital contributions from the City of Boston decreased by \$5.0 million from fiscal 2009 to fiscal 2010 due to the completion of the Long Island facilities and utilities projects in fiscal 2009.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year. For fiscal 2010, cash and cash equivalents decreased by \$12.0 million from 2009.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Required Supplementary Information
Management's Discussion and Analysis

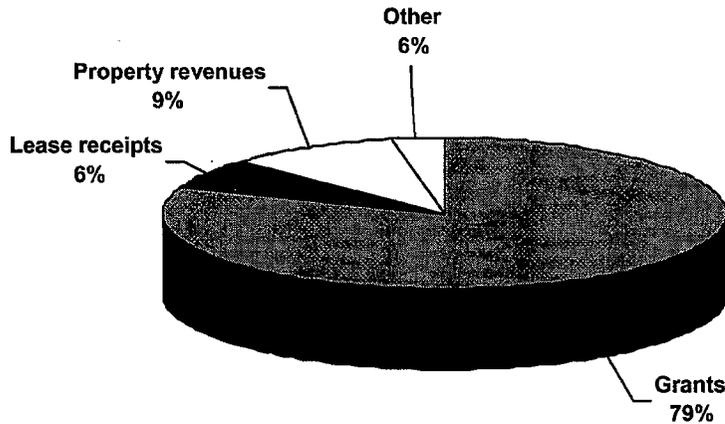
June 30, 2010

(Unaudited)

Financial Information – Operating Revenues

The following chart shows the major sources of operating revenues for the year ended June 30, 2010:

Operating revenues for the year ended June 30, 2010



Operating revenues	Amount	
	2010	2009
	(In thousands)	
Grants	\$ 44,637	47,381
Lease receipts	3,251	3,584
Property revenues	5,347	5,300
Other	3,288	3,427
Total	\$ 56,523	59,692

Operating revenues for the year ended June 30, 2010 was \$56.5 million. Grant revenue, which makes up 79% of the total operating revenues for the Commission, is comprised of funding from state, federal, and private foundations. Lease receipts for the Commission, which consist of payments from the Boston Medical Center for leasing certain portions of the former BCH campus, represent 6% of the Commission's revenues. The Commission operates property at two sites: Long Island campus and Northampton Square, formerly the South Block Campus, in the South End. The properties generate 9% of the Commission's total operating revenue from rental income.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Required Supplementary Information
Management's Discussion and Analysis

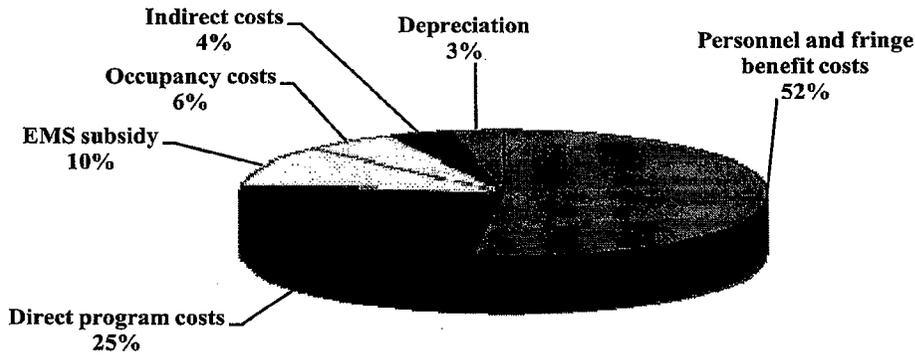
June 30, 2010

(Unaudited)

Financial Information – Operating Expenses

The following chart shows the major sources of operating expenses for the year ended June 30, 2010.

Operating expenses for the year ended June 30, 2010



Operating expenses	Amount	
	2010	2009
	(In thousands)	
Personnel and fringe benefit costs	\$ 64,348	69,754
Direct program costs	30,825	36,144
EMS subsidy and contract expense	12,630	8,972
Occupancy costs	7,171	7,048
Indirect costs	4,916	4,325
Depreciation	4,079	4,251
Total	\$ 123,969	130,494

Personnel and fringe benefit costs, which consist of salaries and benefits, are the largest portion of operating expenses. Personnel and fringe benefit costs decreased \$5.4 million from fiscal 2009 to fiscal 2010. This decrease is mostly due to a decrease in the annual OPEB cost. The decrease in the annual OPEB cost is driven by a decrease in the annual required contribution, which is actuarially determined.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2010

(Unaudited)

Capital Assets

The Commission's capital assets as of June 30, 2010 were \$32.5 million, net of accumulated depreciation. The capital asset additions during the year included construction in progress, vehicles, buildings and improvements, computers and technology, and equipment.

	<u>2010</u>	<u>2009</u>
	(In thousands)	
Construction in progress	\$ 2,156	3,643
Vehicles	59	86
Buildings and improvements	779	1,608
Leasehold improvements	—	3,710
Computers and technology	1,484	—
Equipment	93	40
Total	<u>\$ 4,571</u>	<u>9,087</u>

Debt

During fiscal 2010, no additional debt was issued on behalf of the Commission. See notes 8 and 9 of the financial statements for further discussion regarding the Commission's debt.

Requests for Information

This financial report is intended to provide an overview of the finances of the Commission for those with an interest in this organization. Questions concerning any information contained in this report may be directed to the Executive Director and the Director of Finance of the Commission.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Statement of Net Assets

June 30, 2010

(In thousands)

Assets:	
Current:	
Cash and cash equivalents (note 3)	\$ 31,649
Accounts receivable:	
Billed and unbilled receivable – grantors	13,457
Allowance for uncollectible amounts	<u>(714)</u>
Net accounts receivable	12,743
Prepaid BMC assistance grant	896
Prepaid other	395
Net investment in capital lease (note 4)	8,685
Due from City of Boston	<u>542</u>
Total current assets	<u>54,910</u>
Noncurrent:	
Net investment in capital lease (note 4)	69,083
Notes receivable (note 6)	5,467
Capital assets (note 7):	
Nondepreciable	13,897
Depreciable, net	<u>18,638</u>
Total noncurrent assets	<u>107,085</u>
Total assets	<u>\$ 161,995</u>
Liabilities:	
Current:	
Accounts payable and accrued expenses	\$ 10,821
Due to BMC	1,378
Due to City of Boston	252
Current portion of note payable (note 8)	8,021
Current portion of due to City of Boston (note 9)	1,145
Current portion of capital leases (note 10(b))	256
Deferred revenue	2,438
Other current liabilities	<u>782</u>
Total current liabilities	<u>25,093</u>
Noncurrent:	
Note payable, less current portion (note 8)	66,559
Due to City of Boston (note 9)	3,693
Long term portion of capital leases (note 10(b))	938
Other postemployment benefits obligation (note 11)	42,748
Deferred revenue (notes 5 and 6)	6,617
Other (note 15)	<u>13,984</u>
Total noncurrent liabilities	<u>134,539</u>
Total liabilities	<u>159,632</u>
Net assets:	
Invested in capital assets, net of related debt	30,231
Deficit	(27,868)
Commitments (notes 10, 14, 16, and 18)	
Total net assets	<u>\$ 2,363</u>

See accompanying notes to financial statements.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

(In thousands)

Operating revenue:		
Grants (note 16(b))	\$	44,637
Lease receipts		3,251
Rent		5,347
Other		3,288
Total operating revenue		56,523
Operating expenditures:		
Public health programs		83,281
Property operations		7,037
EMS subsidy		9,894
EMS contract expense		1,030
Administration		8,080
Other postemployment benefit expense		10,568
Depreciation expense		4,079
Total operating expenses		123,969
Operating loss		(67,446)
Nonoperating income (expense):		
City appropriation		70,000
Interest income		213
Assistance grant to BMC (note 14)		(10,750)
Interest expense		(3,444)
Total nonoperating income, net		56,019
Loss before contributions		(11,427)
Capital contributions		753
Change in net assets		(10,674)
Net assets, beginning of year		13,037
Net assets, end of year	\$	2,363

See accompanying notes to financial statements.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Statement of Cash Flows
Year ended June 30, 2010
(In thousands)

Cash flows from operating activities:	
Receipts from grantors	\$ 42,175
Receipts from rents	5,369
Receipts from others	3,804
Payments to vendors	(66,657)
Payments to employees	(45,407)
Payments to retirement plans	(9,614)
Payments to BMC	(28,195)
Advances from BMC	34,704
Net cash used in operating activities	<u>(63,821)</u>
Cash flows from noncapital financing activities:	
Receipts from City appropriation	70,000
Assistance grant	(10,750)
Net cash provided by noncapital financing activities	<u>59,250</u>
Cash flows from capital and related financing activities:	
Receipts for leases	8,359
Purchases and construction of capital assets	(4,571)
Principal payments on notes payable	(8,814)
Interest paid on notes payable	(3,345)
Receipt from City for capital improvements	753
Net cash used in capital and related financing activities	<u>(7,618)</u>
Cash flows from investing activities:	
Interest income	213
Net cash provided by investing activities	<u>213</u>
Net decrease in cash and cash equivalents	(11,976)
Cash and cash equivalents, beginning of year	<u>43,625</u>
Cash and cash equivalents, end of year	<u>\$ 31,649</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (67,446)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	4,079
Changes in assets and liabilities:	
Receivables, net	(963)
Prepays	(185)
Accounts payable and accrued expenses	(1,042)
Due to/from BMC	(8,354)
Due to/from City of Boston	(367)
Other postemployment benefit expense	10,568
Deferred revenue	450
Other	(561)
Net cash used in operating activities	<u>\$ (63,821)</u>

See accompanying notes to financial statements.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Notes to Financial Statements

June 30, 2010

(1) Reporting Entity

The Boston Public Health Commission (Commission), a body politic and corporate and public instrumentality of the Commonwealth of Massachusetts, was established by Chapter 147 of the Acts of 1995. The Commission was created to assume, and have transferred to, all rights and obligations of the Trustees of Health and Hospitals (THH) and the Department of Health and Hospitals of the City of Boston (DHH), which under separate charter, were abolished by the same Act, as part of the merger of the Boston City Hospital (BCH) with the Boston University Medical Center Hospital. The Commission is governed by a seven-member board, six of which are appointed by the Mayor of Boston and confirmed by the City Council and one of whom is the chief executive officer of the Boston Medical Center (BMC). Some members of the board work with or for organizations that receive funding from the Commission.

The Commission is responsible for the implementation of public health programs in the City of Boston (City). The Commission offers a variety of specialized services such as operating a homeless shelter, public health nursing, drug rehabilitation programs and health services for children in various neighborhood locations. The Commission is also responsible for the development of public policy for public health initiatives and emergency ambulance service (EMS) in the City.

The Commission receives the majority of its funding from a City appropriation, federal and state grants, and lease agreements with BMC. The Commission expects that the City will continue to provide support for the public health programs of the Commission.

In 2001, the BPHC Mattapan Development Corp., Inc. was created for benevolent, civic, or charitable purposes within the meaning of Section 4 of Chapter 180 of the Massachusetts General Laws, more specifically to assist in the development, redevelopment, financing, operation, and management related to the revitalization of the Boston Specialty and Rehabilitation Hospital Campus located in the Mattapan section of the City of Boston, Massachusetts. The activities of this corporation are presented as a blended component unit in the accompanying financial statements due to its financial dependency on the Commission.

For financial reporting purposes, the Commission is considered a component unit of the City of Boston and its financial statements are included as part of the City's financial statements.

(2) Summary of Significant Accounting Policies

(a) Measurement Focus, Basis of Accounting, and Basis of Presentation

The Commission's financial statements are reported on an accrual basis of accounting as specified by the Governmental Accounting Standards Board (GASB) requirements for an enterprise fund. The accrual basis of accounting recognizes revenues when earned and recognizes expenses when the related liability is incurred, regardless of when the related cash flow takes place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Commission considers the lease receipts from BMC, rent, grants, EMS program revenue and other fees for services as operating revenues. Other revenues not meeting this definition are considered nonoperating items. Operating expenses are those expenses related to grants and

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Notes to Financial Statements

June 30, 2010

City-funded expenses. Nonoperating expenses are those not meeting this definition except for the annual assistance payment to BMC.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commission has adopted the option to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(b) Budget

Under the legislation of the Commonwealth of Massachusetts that established the Commission, the Board of Commissioners must adopt its public health services budget for the ensuing fiscal year by the second Wednesday in June.

(c) Cash and Cash Equivalents

The Commission considers cash and cash equivalents to be cash on hand and investments with a maturity date of three months or less from the date of purchase. The fair values of the investments do not differ from their carrying value.

(d) Capital Assets

Capital assets are defined by the Commission as assets with an initial, individual cost of 1) more than \$25,000 for buildings and building improvements or 2) more than \$5,000 for assets other than buildings and building improvements; and an estimated useful life in excess of one year. Capital assets are stated at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

On July 1, 1996, the merger date, various capital assets of the former THH and the former DHH were transferred to the Commission at their depreciated values. These assets included the Boston Specialty and Rehabilitation Hospital (BSRH) and Northampton Square. On July 1, 1996, title to the property, plant, and equipment of the former BCH was transferred to the Commission, which was in turn leased to the BMC.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset class	Estimated useful lives
Buildings	30
Buildings improvements	10 – 30
Furniture and fixtures	10
Computers and technology	3 – 5
Vehicles	3
Equipment	3

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Notes to Financial Statements

June 30, 2010

(e) *Compensated Absences*

Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused vacation leave (subject to certain limitations) at their current rates of pay. The cost of vacation leave for an employee is recorded as earned. The liability for vacation leave is based on the amount earned but not used and is calculated based on the pay or salary rates in effect at the balance sheet date.

(f) *Use of Estimates*

The preparation of financial statements in conformity with U.S. 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 the reporting period. Actual results could differ from those estimates.

(3) *Deposits and Investments*

(a) *Custodial Credit Risk*

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Commission will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Commission does not have a policy for custodial credit risk.

At June 30, 2010, cash and cash equivalents with a carrying value of \$31,649,000 included bank and money market deposits. Bank deposits of \$18,017,657 and money market deposits of \$17,632,359 were covered by federal depository insurance of \$500,000. The remaining bank and money market deposits were collateralized by United States government and agency obligations.

(b) *Interest Rate Risk*

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Commission does not have a policy for interest rate risk on debt securities.

(4) *Net Investment in Capital Lease*

As part of the merger described in note 1, the Commission retained title to all real property formerly held by THH and DHH, except for the Long Island Campus, which was transferred to the City's Public Facilities Department. On July 1, 1996, the Commission leased the former BCH campus, except for certain identified sites, to BMC for an initial period of 50 years with four 10-year renewal options.

The payments received by the Commission under the lease are equal to (i) the debt service costs (principal, interest) on the Note dated August 1, 2002 that secures the City's Special Obligation Refunding Bonds, Boston City Hospital issue (see note 8), and (ii) the debt service on all City general obligation bonds allocable to BCH outstanding at June 30, 1996.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Notes to Financial Statements

June 30, 2010

When the Note is retired (scheduled in fiscal 2019), the lease provides for the Commission and BMC to set lease payments at fair market value for the property for the remainder of the lease term.

Future minimum lease payments to be received under the capital lease at June 30, 2010 are as follows (amounts in thousands):

	Note	BCH debt	EMS G.O. debt	Total
2011	\$ 10,750	722	106	11,578
2012	10,750	743	106	11,599
2013	10,750	703	106	11,559
2014	10,750	375	61	11,186
2015	10,750	351	39	11,140
2016 – 2019	33,147	328	—	33,475
	<u>86,897</u>	<u>3,222</u>	<u>418</u>	<u>90,537</u>
Less amount representing interest	<u>(12,317)</u>	<u>(405)</u>	<u>(47)</u>	<u>(12,769)</u>
Net investment in capital lease	<u>\$ 74,580</u>	<u>2,817</u>	<u>371</u>	<u>77,768</u>

(5) Other Leasing Activity

On December 7, 2006 the Commission (lessor) entered into a lease agreement with the Boston Health Care for the Homeless Program, Inc. (lessee) which allowed the lessee to renovate the Mallory Building (located at 774 Albany Street) for the sole purpose of operating a health care facility for the homeless. The lease agreement provides for an initial term of forty-two years with two (2) twenty-four year options. Base rent for the initial term is \$1.6 million payable in installments of \$160,000 upon execution, \$640,000 received in June 2008; and \$800,000 on the first anniversary of occupancy. Base rent for each option is \$1 per year. The Commission is accounting for the lease as an operating lease and is recognizing rental income over the lease term of 90 years at approximately \$18,000 per year. The cash received to date has been deferred. Deferred revenue associated with the lease is \$1,536,000.

(6) Notes Receivable

During fiscal 2002, the BPHC Mattapan Development Corp., a fully controlled nonprofit entity of the Commission, sold the Foley and E Buildings on the Mattapan Campus to a developer for \$2,955,000. The BPHC Development Corp. holds two notes receivable for the entire purchase price of the buildings – \$2,805,000 at 5.5% interest and \$150,000 at 0.01% interest. The principal of the notes and the accrued unpaid interest are payable in a balloon payment in fiscal 2040.

During fiscal 2005, the Commission and the BPHC Mattapan Development Corp. completed Phase II by selling Mattapan buildings A, B, C, D, and I to Trinity Mattapan Heights Limited Partnership for \$582,000. The Commission holds a note receivable of \$162,000 with simple interest of 0.01% per annum with principal and interest payable in 40 years. BPHC Mattapan Development Corp. holds a note receivable of \$420,000 with interest compounding annually at 5.21%. The principal of the note and the

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accrued unpaid interest are payable in a balloon payment in fiscal 2040. Because of the structure of these transactions, including the fact that the building was fully depreciated at the time of lease execution, the Commission has deferred gains until certain criteria for income recognition are met.

(7) Capital Assets

The following is a summary of the activity in capital assets for the years ended June 30, 2010 (in thousands):

	<u>Balance, June 30, 2009</u>	<u>Additions</u>	<u>Disposals or reclasses</u>	<u>Balance, June 30, 2010</u>
Capital assets not being depreciated:				
Land	\$ 11,741	—	—	11,741
Construction in progress	3,820	2,156	(3,820)	2,156
Total capital assets not being depreciated	<u>15,561</u>	<u>2,156</u>	<u>(3,820)</u>	<u>13,897</u>
Capital assets being depreciated:				
Buildings and improvements	32,196	3,221	—	35,417
Leasehold improvements	8,693	—	—	8,693
Vehicles	14,347	1,437	(2,998)	12,786
Computers and technology	5,187	1,484	—	6,671
Equipment	1,787	93	—	1,880
Furniture and fixtures	398	—	—	398
Total capital assets being depreciated	<u>62,608</u>	<u>6,235</u>	<u>(2,998)</u>	<u>65,845</u>
Less accumulated depreciation for:				
Buildings and improvements	24,885	1,475	—	26,360
Leasehold improvements	1,372	861	—	2,233
Vehicles	12,859	1,229	(2,998)	11,090
Computers and technology	5,026	337	—	5,363
Equipment	1,665	138	—	1,803
Furniture and fixtures	319	39	—	358
Total accumulated depreciation	<u>46,126</u>	<u>4,079</u>	<u>(2,998)</u>	<u>47,207</u>
Total capital assets being depreciated, net	<u>16,482</u>	<u>2,156</u>	<u>—</u>	<u>18,638</u>
Total capital assets, net	<u>\$ 32,043</u>	<u>4,312</u>	<u>(3,820)</u>	<u>32,535</u>

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(8) Note Payable to Trustee

On August 1, 2002, the City of Boston issued \$127,800,000 Special Obligation Refunding Bonds, Boston City Hospital. The City issued the Bonds and applied the proceeds and other moneys available to the City under the Prior Trust Agreement as provided in Section 503 of the Bond Indenture to refund the Series B Bonds and to defease the lien of the Prior Trust that the Commission had assumed on July 1, 1996.

In consideration of the issuance of the Bonds by the City and the application of the proceeds thereof, the Commission agreed to issue the Note to the City in the aggregate original principal amount of \$127,800,000. The Commission issued the Note Payment Trust Agreement dated August 2002, to secure the 2002 Bonds among the City, the Commission, BMC, and Wachovia Bank, N.A., as Note Trustee. The 2002 Note replaced the FHA Insured Mortgage Note that had secured the 1993 Bonds.

Payments made by the Commission on this Note will be used, together with other funds held in trust, by the trustee to pay off the outstanding balance of \$127,800,000 of the City of Boston 'Special Obligation Refunding Bonds' dated August 1, 2002, with interest rates ranging from 2.0% to 5.0%. The Commission will receive funding for these Note payments from BMC under an agreement whereby certain assets transferred to the Commission on July 1, 1996 were immediately leased to BMC (see note 4).

The Note is payable in monthly installments through July 2018. The principal amount paid in fiscal year 2010 was \$7,718,000. The scheduled maturities due on the Commission's Note as of June 30, 2010 appear below:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(In thousands)		
Fiscal year:			
2011	\$ 8,021	2,729	10,750
2012	8,335	2,415	10,750
2013	8,661	2,089	10,750
2014	9,001	1,749	10,750
2015	9,353	1,397	10,750
2016 – 2019	31,209	1,937	33,146
	<u>\$ 74,580</u>	<u>12,316</u>	<u>86,896</u>

(9) Due to City of Boston

The Commission is responsible for reimbursing the City for the principal and interest on portions of the General Obligation (G.O.) Bonds of the City that relate to the property and operations of the Boston City Hospital Campus, Northampton Square, Mattapan (BSRH) Campus, Emergency Medical Service (EMS) Operations and the Long Island Campus. This obligation relates to G.O. Bonds issued by the City between December 1967 and October 1995, with interest rates ranging from 3.75% to 10.0%.

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The future principal and interest payments to be made by the Commission to the City for this debt as of June 30, 2010 are as follows:

	BCH		G.O.	
	Principal	Interest	Principal	Interest
	(In thousands)			
2011	\$ 578	144	567	104
2012	634	109	592	70
2013	631	72	490	37
2014	331	44	195	16
2015	324	26	177	5
2016	319	9	—	—
	\$ 2,817	404	2,021	232

(10) Leases

(a) Operating Leases

The Commission leases building space to house its operations. These leases are treated as operating leases with related rents charged to operations as incurred. The lease between the City of Boston and the Commission for the space at 1010 Massachusetts Avenue expired on December 31, 2009. Both parties continue to honor the expired agreement.

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2010 (in thousands):

2011	\$ 27
2012	27
2013	27
2014	27
2015	27
2016 – 2020	128
2021 – 2022	41
	\$ 304

Total rent expense for the year ended June 30, 2010 was \$1,086,000.

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(b) Capital Leases

The Commission entered into two capital lease arrangements in fiscal 2010. The following is a schedule by year, of future minimum lease payments under capital leases as of June 30, 2010 (amounts in thousands):

2011	\$	381
2012		381
2013		381
2014		381
2015		27
		1,551
Less amount representing interest		(357)
	\$	1,194

(11) Other Postemployment Benefit (OPEB) Disclosures

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses and changes in net assets when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the statement of net assets over time.

In addition to the pension benefits described in note 12, the Commission provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries under the City of Boston's health insurance plan. As of June 30, 2009, the valuation date, approximately 102 retirees and 993 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The Commission participates in an agent multi-employer defined benefit OPEB plan sponsored by the City of Boston (the City). The OPEB plan is administered by the City and does not issue a stand-alone financial report.

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Neighborhood Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental and Medicare Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan.

Groups 1 and 2 retirees, including teachers, with at least 10 years or 20 years of creditable service are eligible at age 55 or any age, respectively. Group 4 retirees with at least 10 years or 20 years of creditable service are eligible at age 45 or any age, respectively. Retirees on ordinary or accidental disability retirement are eligible at any age while ordinary disability requires 10 years of creditable service. The

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surviving spouse is eligible to receive both pre- and post-retirement death benefits, as well as medical and prescription drug coverage.

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The Commission provides health insurance to its employees under the City's health insurance plans. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2009, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

(b) Annual OPEB Cost and Net OPEB Obligation

The Commission's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the Commission's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the change in the Commission's net OPEB obligation based on an actuarial valuation as of June 30, 2009 (in thousands):

Annual Required Contribution (ARC)	\$	11,420
Interest on net OPEB obligation		1,689
Adjustment to ARC		(1,218)
Annual OPEB cost		11,891
On behalf contributions from the City		(1,323)
Increase in net OPEB obligation		10,568
Net OPEB obligation – beginning of year		32,180
Net OPEB obligation – end of year	\$	42,748

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation
2010	\$ 11,891	11.10%	\$ 42,748
2009	17,878	7.09	32,180
2008	16,560	5.98	15,570

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(c) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, based on an actuarial valuation as of June 30, 2009, was as follows (in thousands):

Actuarially accrued liability (AAL)	\$	131,156
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	\$	131,156
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	\$	52,915
UAAL as a percentage of covered payroll		247.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Commission are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(d) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commission and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Commission and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5.25% investment rate of return and an annual health care cost trend rate of 10% – 11% initially, reduced by decrements to an ultimate rate of 5.0% after 5 – 6 years. The health care cost trend rate differs between the master medical and other healthcare plans. The actuarial value of assets was determined using the market value of investments. The Commission's unfunded actuarial accrued liability is being amortized based on payments increasing at 4.50% per year on an open basis. The remaining amortization period at July 1, 2009 was thirty years.

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(12) Employee Benefit Plans

All Commission employees are eligible to participate in the State-Boston Retirement System (SBRS). Commission employees predominately funded by external grants or contracts are eligible to participate in the defined contribution plan.

(a) State-Boston Retirement System (SBRS)

Employees are eligible to participate in the State-Boston Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan. The System provides for retirement allowance benefits up to a maximum of 80% of an employee's highest three-year average annual rate of regular compensation. Benefit payments are based upon an employee's age, length of service, level of compensation and group classification. Employees become vested after 10 years of creditable service. A retirement allowance may be received upon completion of 20 years of service or upon reaching the age of 55 with 10 years of service. The System issues a publicly available financial report that can be obtained from the State-Boston Retirement System, Boston City Hall, Boston, Massachusetts 02201.

Plan members are required to contribute to the System at rates ranging from 5% to 9% of annual covered compensation. Employees hired on or after January 1, 1979 pay an additional 2% of salary in excess of \$577 per week. The Commonwealth of Massachusetts reimburses the System for a portion of benefit payments for cost of living increases. The Commission is required to pay into the System its share of the remaining system-wide actuarially determined contribution. The contribution of plan members, the Commission and the Commonwealth are governed by Chapter 32 of the Massachusetts General Laws. The Commission was billed \$9.4 million, \$9.1 million, and \$8.6 million for contributions by the System for the years ended June 30, 2010, 2009, and 2008, and paid those amounts during the respective years.

(b) Defined Contribution Retirement Plan

The Commission has a defined contribution retirement plan available to certain grant-funded employees. Eligible employees include those participating in the Plan when they originally transferred to the Commission, as well as employees hired by the Commission, whose position, at the date of hire, were less than 50% funded with City appropriated funds. Employer contributions are 4% of the gross wages of participating employees. Employees may make additional voluntary contributions. Payments made by the Commission under this plan amounted to \$127,000 consisting of \$117,000 in current and \$10,000 in prior year contributions during the year ended June 30, 2010.

(c) Deferred Compensation Plan

Certain employees of the Commission are eligible to participate in a deferred compensation plan. All contributions to the plan are made by the employees.

(13) Medicaid Managed Care Agreement

The Commission is a party to a Medicaid Managed Care Agreement (MCO Agreement) with the Commonwealth of Massachusetts to provide MassHealth services to members of the Boston Medical

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Center HealthNet Plan (the Plan). The Commission has a subcontract agreement with Boston Medical Center Health Plan Inc. to operate the Plan and to contract with providers to provide MassHealth services to Plan Members (the Subcontract). The MCO Agreement pays the Plan capitated rates which are appropriated by the Legislature. These payments are subject to conditions that may be imposed by appropriations and to the availability of full federal financial participation (FFP). These conditions require the Commission to make specified payments to the Commonwealth.

For the year ending June 30, 2010, the Commission received such payments in the amount of \$864 million from the Commonwealth. The Commission (acting as the sponsor of the Boston Medical Center HealthNet Plan) transferred all payments received from the Commonwealth to the Boston Medical Center HealthNet Plan.

(14) Base Assistance Grants

Under the consolidation agreement, the Commission is committed to make assistance grant payments to BMC based on the following schedule as of June 30, 2010 (in thousands):

	Amount
2011	\$ 10,750
2012	10,750
2013	10,750
2014	10,750
2015	10,750
2016 – 2019	33,146
	\$ 86,896

(15) Other

The other noncurrent liabilities consist mainly of disputed contractual amounts and legal provisions.

(16) Related-Party Transactions

(a) Leases

The Commission leases space from the City of Boston to house its operations at 1010 Massachusetts Avenue. Fiscal 2010 rent expense was \$1,023,000 for this location. In addition, the Commission occupied rent-free space in the Dowling Building to support EMS operations during fiscal 2010.

(b) Grant Administration Agreement

Effective July 1, 1997, the Commission and BMC entered into an agreement, pursuant to which BMC provides certain fiscal agent and grant administration services. The Commission's Grant Administration, as well as Emergency Medical Services (EMS) Agreement with Boston Medical Center, expired on July 1, 2006. Both parties continue to honor the expired agreements. Under the terms of the agreement, certain grants supporting public health programs are sponsored by BMC.

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The Commission effective September 1, 2009 assumed responsibility for grants administration and management in its entirety. BMC provided funding of \$233,000 to support this change. The Commission terminated the agreement effective fiscal 2011.

For fiscal 2010, the Commission reimbursed BMC for services set out in the agreement. Such reimbursements, subject to review, were approximately \$4,430,000 for fiscal 2010.

(c) *Emergency Medical Services (EMS) Agreement*

BMC is contracted by the Commission, under a ten (10) year agreement beginning July 1, 1996 to be the sole provider of EMS services in the City of Boston. Although the agreement with BMC expired on July 1, 2006, both parties continue to honor the expired agreement. EMS operates subject to licensure by applicable regulatory authorities and adheres to policies determined by the Commission. EMS is funded by the Commission from an appropriation received from the City and by reimbursements for services from patients and third-party payers. The appropriation is determined based upon a budget approved by the Commission.

In fiscal 2010, BMC was appropriated a \$11.5 million EMS subsidy from the Commission. The Commission paid to BMC \$13.7 million and \$11.6 million in fiscal 2010 and 2009, respectively; \$3.8 million due from the fiscal 2009 EMS subsidy and \$9.9 million related to the fiscal 2010 EMS subsidy. The EMS budget is monitored throughout the fiscal year and any necessary increases to the subsidy may be made on a quarterly basis subject to the appropriation. The EMS agreement also provides for a reconciliation of the subsidy and actual subsidy requirements. A settlement is to be paid or received by the Commission in the year of the reconciliation.

Under the agreement, BMC retains the use of EMS patient receivables. Upon termination of the agreement, the receivables revert to the Commission. The outstanding receivable balance as of June 30, 2010 was \$3,339,000. The net receivable balance as of June 30, 2010 was \$2,757,000. Effective May 1, 2010, the Commission assumed responsibility for the invoicing and collection of EMS services and effective July 1, 2010, the agreement was terminated.

All EMS operating personnel are Commission employees. BMC reimburses the Commission for the salaries, wages and fringe benefits of all the Commission's EMS personnel. The personnel costs incurred by the Commission and reimbursed by BMC during fiscal 2010 were approximately \$32.3 million.

For fiscal year 2010, BMC's management charge for EMS services was \$385,000 and the overhead charge was \$1,354,000.

(17) Risk Management

The Commission receives management services from the City for health and life insurance, workers' compensation, and unemployment claims.

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Although the City pays for these claims on behalf of the Commission, the City charges back the Commission for these costs. Therefore, the claims cost ultimately resides with the Commission. However, the liability associated with these claims is recorded by the City. The Commission provides its own legal defense for legal claims.

The Commission is self-insured for its property and casualty losses. The City appropriates annual operating funds and assists the Commission in financing unexpected costs over multiple years.

(18) Commitments and Contingencies

Various federal and state programs and research activities administered by the Commission are subject to post-performance review and adjustment. The Commission currently records adjustments to reflect costs incurred in excess of grant funds available and differences between provisional and final indirect cost reimbursement rates. Other adjustments resulting from grantor reviews are recorded during the period in which they occur.

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Schedule of OPEB Funding Progress
Required Supplementary Information

June 30, 2010

Unaudited

(Dollars in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of plan assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>(Overfunded unfunded AAL (UAALS) (b - a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
June 30, 2009	\$ —	131,156	131,156	—%	\$ 52,915	247.9%
June 30, 2007	—	163,981	163,981	—	47,922	342.2

See accompanying independent auditors' report.

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Supplementary Schedule of Revenues and Expenditures – Budgetary Basis

Year ended June 30, 2010

(In thousands)

	<u>Original budget</u>	<u>Supplemental and reallocations</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable) to final budget</u>
Revenues:					
Rent	\$ 5,489	11	5,500	5,347	(153)
Interest	540	(50)	490	213	(277)
City appropriation	70,000	—	70,000	70,000	—
Other	1,258	204	1,462	3,306	1,844
Total revenues	<u>77,287</u>	<u>165</u>	<u>77,452</u>	<u>78,866</u>	<u>1,414</u>
Expenditures:					
Administration	7,218	930	8,148	8,831	(683)
Public health program	39,267	9	39,276	38,774	502
Property operations	7,939	(401)	7,538	7,275	263
EMS subsidy	11,546	—	11,546	11,600	(54)
EMS contract expense	—	—	—	1,030	(1,030)
OPEB expense	—	—	—	816	(816)
Debt service	567	—	567	567	—
Assistance grant to BMC	10,750	—	10,750	10,750	—
Total expenditures	<u>77,287</u>	<u>538</u>	<u>77,825</u>	<u>79,643</u>	<u>(1,818)</u>
Excess revenues over expenditures	\$ <u>—</u>	<u>(373)</u>	<u>(373)</u>	<u>(777)</u>	<u>(404)</u>

See accompanying independent auditors' report.



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**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***

Dr. Barbara Ferrer, Executive Director
Boston Public Health Commission

We have audited the financial statements of the Boston Public Health Commission (the Commission) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 9, 2010. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in the accompanying schedule of findings and responses as items 2010-1 and 2010-2. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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*.

We noted certain matters that we reported to management of the Commission in a separate letter dated November 9, 2010.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Commission's Board of Commissioners, federal granting agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

November 9, 2010

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Responses

June 30, 2010

Finding 2010-1 – SIGNIFICANT DEFICIENCY

Internal Controls at Boston Medical Center (BMC)

The Commission contracts with a third party, Boston Medical Center (BMC), to provide accounting services for all of its operations. In effect, BMC acts as a service bureau for the Commission's accounting function. The Commission places a great deal of reliance on the controls in place at BMC to input and process transactions of the Commission in order to produce accurate and complete financial information.

Although the Commission terminated the Grant Administration agreement with BMC effective July 1, 2010, we noted that the Commission did not perform procedures to determine that internal controls are in place and operating effectively to ensure the completeness and accuracy of the information produced by BMC during fiscal 2010.

Recommendation:

To gain comfort over controls in place at BMC, the Commission should perform procedures to determine that internal controls are in place and operating effectively to ensure the completeness and accuracy of the information produced by BMC and relied upon by the Commission.

Management Response:

Effective 7/1/2010, the Commission transitioned its accounting, accounts payable, grants administration and procurement functions from BMC to the Commission for internal central processing. The Commission was aware that BMC did not perform a FY 2010 SAS 70 report for the Commission and instead focused on the transitioning of all services from BMC to the Commission. The Commission will focus on developing new internal controls that relate to the changes from outsourcing to internal processing. Where the Commission identified areas of weakness over the completeness and accuracy of the information and requested a compilation of agreed upon procedures from its audit firm KPMG.

Finding 2010-2 – SIGNIFICANT DEFICIENCY

Accounts Receivable

During our review of the billed and unbilled grants accounts receivable, we noted several instances in which the Commission applied cash received to the wrong grant account receivable, which resulted in the overstatement and understatement of certain grant receivable balances. As a result, the accounts receivable was misstated for several grants.

Recommendation:

We recommend that the Commission institute stronger management review controls over the grants accounts receivables including the aging report to ensure outstanding accounts receivable are accurate, exist and are valued properly.

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Responses

June 30, 2010

Management Response:

The Commission's financial and administration management will meet monthly with the grant manager and the third party revenue manager. The meeting will cover best practices in receivables management (billed and unbilled grant expenditures) aging reports and minutes to be kept by grants and third party billing to be presented at year end to demonstrate management review controls are being implemented.