Cambridge Health Alliance

(A component unit of the city of Cambridge, Massachusetts)

Reports on Federal Awards in Accordance with OMB Circular A-133

June 30, 2012

Cambridge Health Alliance
(A component unit of the city of Cambridge, Massachusetts)
Index
June 30, 2012

Page(s)

Part I
Financial Statements and
Schedule of Expenditures of Federal Awards

Report of Independent Auditors

To the Board of Trustees of
Cambridge Health Alliance:

In our opinion, the accompanying consolidated financial statements of net assets and the related statements of revenue, expenses, and changes in net assets, and cash flows presented fairly, in all material respects, the financial position of the Cambridge Health Commission d/b/a Cambridge Health Alliance (the Alliance) at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012 on our consideration of the Alliance'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 for the year ended June 30, 2012. 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 the 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.

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The accompanying management discussion and analysis on pages 3 through 15 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

November 20, 2012

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Required Supplementary Information
Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011

The following discussion and analysis provides an overview of the financial position and activities of the Cambridge Public Health Commission d/b/a Cambridge Health Alliance (the Alliance or CHA), a component unit of the City of Cambridge, Massachusetts, as of and for the year ended June 30, 2012. This discussion has been prepared by management and should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

Organization
The Alliance is an integrated health system that provides care in Cambridge, Somerville, Everett, Revere, Malden and the surrounding Metro-North communities. It includes three hospital campuses, primary care practices, and the Cambridge Public Health Department. Network Health, Inc. a prepaid, state-wide managed care organization, serving more than 173,000 members through state-sponsored insurance programs was part of the Alliance until November 1, 2011 at which time the business was sold to Network Health, LLC, a subsidiary of Tufts Health Plan.

The Alliance is composed of the following entities: Cambridge Public Health Commission (CPHC), Somerville Hospital, Whidden Memorial Hospital, Cambridge Health Alliance Physicians Organization, Inc., CHA Management Services, Inc. (formerly Network Health, Inc.), the Institute for Community Health, and the Alliance Foundation for Community Health, Inc. Cambridge Public Health Commission is a public corporation and all other entities are 501(c)(3) nonprofit organizations.

CHA operates three hospital campuses with 24-hour emergency care and specialty services available at all campuses. Inpatient care is available at the Cambridge and Whidden campuses. Primary care centers are located throughout Cambridge, Somerville, Revere, Everett, and Malden. The organization provides nationally-recognized mental health services to CHA primary care patients, and residents of our primary service area.

Improving the health of our communities is the Alliance's mission. As we look to the future for CHA we envision an integral part will be transforming our delivery system to a high performing, highly integrated Accountable Care Organization (ACO).

Improve Quality and Patient Safety
The medical staff at the Alliance now represents more than 30 specialty areas. The Alliance is a teaching affiliate of Harvard Medical School, Harvard School of Public Health, Harvard School of Dental Medicine, and the Tufts University School of Medicine.

The Alliance has a strong quality governance and management structure that includes a Board-level Quality Committee, an extensive set of dashboards, indicators and reports, and clear goals and priorities for improving quality and patient safety. The Alliance continues to focus on leadership core competencies, planning strategy and setting operational priorities, introducing new technologies, reducing costs, communicating and sharing information electronically, being patient centered, using measurement of performance to drive change, and maintaining market advantage.

The Alliance develops annual priorities and goals as part of its leadership and strategic planning processes, including establishing specific goals and targets to focus improvement efforts. These high-level goals are the basis for the entire organization's improvement goals, thus achieving the alignment required to achieve and sustain change.

These goals form the basis for a balanced scorecard, upon which individuals and the organization are evaluated. Management of the performance associated with the organization's priorities and goals is governed by a quality management system of dashboards and indicator detail reports. Results are reported monthly and quarterly through multiple committees and reviewed by the Board of Trustees. Performance results become the focus of improvement teams throughout the organization. These scorecards are readily accessible by all staff through the organization's intranet.

The Alliance is fully accredited by the Joint Commission. CHA is committed to providing the highest quality of care, and Joint Commission accreditation and certification is a nationally recognized symbol of quality.

Through a contract with the City of Cambridge, CHA also operates the Cambridge Public Health Department (the "Department"), which strives to improve the quality of life of residents and workers by reducing sickness and injury; encouraging healthy behaviors; and fostering safe and healthy environments. The Department also has the legal authority to make and enforce public health regulations within the City of Cambridge. Main areas of focus are communicable disease prevention and control, epidemiology, school health, environmental health, emergency preparedness, health promotion and wellness, and regulatory enforcement.

In FY12, staff administered 1,385 flu vaccines and 46 pneumonia shots during flu season; followed up on 123 communicable disease reports; and handled 1,940 patient visits to the Cambridge Hospital's Schipellite Chest Center and made related home visits to patients with active or latent tuberculosis (TB). In addition, staff conducted 53 environmental health investigations, made home visits to families of young children with asthma, provided 2,774 dental screenings to elementary school children, and provided school health services in the Cambridge public schools and oversight and clinical guidance to three nonpublic schools, private day care centers, and city-managed preschools and camps.

The Department continued its work on important public health initiatives, including the Cambridge Food and Fitness Policy Council and the Let's Move Cambridge campaign; the Men's Health League, which aims to reduce cardiovascular disease and diabetes among men; and the city's Smoking in Parks Task Force, which worked to establish a consistent and enforceable policy around smoking in public parks. The Department also published several health data reports, and was selected to participate in two national epidemiology projects.

The Department led several grant-funded initiatives in FY12, including (1) Cambridge in Motion, a project to promote healthy eating and physical activity through policy and environmental approaches funded through the state's Community Transformation Grant; and (2) a project to develop policy and implementation guidelines to address domestic violence in the workplace, funded by the American Public Health Association.

The Department continued to prepare Cambridge Health Alliance for a range of possible emergencies, led the hospital operations subcommittee of the Cambridge Local Emergency Planning Committee, and coordinated activities of the Emergency Preparedness Region 4b. In FY12, the Department worked with the U.S. Department of Homeland Security and state agencies to inform the public about biosensors that will be tested in local subway stations, provided consultation to the Cambridge Public Schools emergency preparedness program, and sponsored multiple trainings on shelter operations and assisting people with disabilities.

In FY12, Cambridge Health Alliance received a statewide award for its exemplary contributions to tuberculosis care. The TB program is staffed by public health nurses and CHA physicians.

The Department of Community Affairs at the Alliance outreaches to individuals, and works with various community groups, nonprofit agencies, and public health departments to improve health care access, including promoting healthy behaviors, setting up primary care appointments, helping people apply for health coverage, and identifying important community health issues. It develops, finds funding for, and operates 12 individual programs addressing key areas, such as HIV/AIDS, homelessness, teen pregnancy prevention, obesity, and diabetes that target cultural or linguistic minorities, at-risk populations and the community as a whole.

The Zero Disparities Committee is staffed by Community Affairs. It is designed as a collaboration between community health and hospital quality improvement. The Zero Disparities Committee works towards reducing disparities in service utilization and health outcomes among the populations served by the Alliance. The Zero Disparities Committee is currently working on an initiative to improve the quality of the race, ethnicity, and language data collected by the Alliance. Accurate, patient-identified data will help us to be able to better serve patients and reduce and address disparities within the Alliance.

The Institute for Community Health (ICH) is a unique collaboration among three Massachusetts health care systems to improve the health of Cambridge, Somerville, and surrounding communities. ICH works to advance community health research, education and training, to develop community action programs and policy, and forge linkages among health care systems, community partners, and academic institutions with shared community health objectives.

Build Academic Mission

Through affiliations with Harvard Medical School and the Tufts University School of Medicine, the Alliance has provided educational opportunities for over 30 years. The Alliance now offers 13 residency and training programs in a variety of disciplines, including Internal Medicine, Family Medicine, Podiatry, Psychiatry, and Dentistry.

The Cambridge Integrated Clerkship, started in FY05 continues to attract some of the brightest and most accomplished medical students from Harvard Medical School.

The Alliance is a member of the Association of American Medical Colleges (AAMC) and Council of Teaching Hospitals (COTH).

Strengthen Financial Position

The Alliance reported net income of $44.1 million for fiscal year 2012. This is a decrease from our FY11 reported net income of $55.4 million. Network's Health reported $19.4 million less in net income, while the Provider reduced its loss by $8.4 million.

Network Health reported income of $72.7 million for fiscal year 2012 including $50.0 million from the sale of net assets on November 1, 2011 to Network Health, LLC.

The Provider Network reported a loss of $28.5 million compared to a loss of $36.9 million in the prior fiscal year.

With the sale of the managed care business, the Alliance will focus on the long term financial sustainability of the Provider Network. In fiscal year 2012, the Alliance completed a national search for a

Chief Executive Officer. Patrick Wardell joined the Alliance in March of 2012. With new leadership, and the Alliance's continued determination, the Alliance will be working to strengthen it's future financial position.

The Alliance also continues to move forward toward becoming an Accountable Care Organization (ACO). The Alliance has the ability to earn $66 million from Delivery System Transformation Initiatives (DSTI). DSTI is a provision within the MA Medicaid Waiver for state fiscal years 2012 through 2014. In order to earn these incentives, the Alliance must meet metrics on seven approved projects. The projects are grouped into four CMS approved categories:

(1) Development of a Fully Integrated Delivery System

(2) Improved Health Outcomes and Quality

(3) Ability to Respond to State-wide Transformation to Value-Based Purchasing and Alternative Payment Models that Promote System Sustainability

(4) Population-Focused Improvement Measures

In addition, the Alliance has been focusing on implementing system wide electronic medical records. At the end of fiscal year 2012, the Alliance was 75% complete with the implementation. The Alliance received $3.0 million of federal funds in 2012 for meeting the electronic medical record meaningful use requirement, and expects to earn $5.8 million in 2013. The Alliance continues to streamline the electronic process to add efficiencies including exploring the use of speech recognition software as a supplement to the electronic medical record.

Leadership and Workforce
The Alliance recognizes that the development of leadership and workforce is key to a successful organization. The Provider Network employs just under 3,500 individuals from diverse backgrounds, including approximately 700 nursing staff. There are also nearly 450 active medical staff.

Leadership Development initiatives during fiscal year 2012 continued to focus on organizational transformation to a Patient-Centered Medical Home (PCMH) within an (ACO). The CHA Leadership Academy comprised nine interdisciplinary teams that created Capstone Projects related to accomplishing the Triple Aim of patient quality, cost, and population health. The program expanded in 2012-13 to a full calendar year. Additional leadership development initiatives included the Supervisor Development Program, an expanded Management Orientation curriculum, and education in preparation for our Joint Commission survey.

Workforce development initiatives through CHA's Human Resources Department in fiscal year 2012 included pursuing and overseeing grant-funded programs with community partners to provide workplace education to employees in critical workforce shortage areas. This included college readiness skills, English for Speakers of Other Languages, vouchers for healthcare pre-requisite courses and an onsite RN/BSN program for nurses with diplomas to earn Bachelor's degrees. CHA also provides tuition reimbursement to its staff to support job-related personal and professional development.

Growth
Fiscal year 2012 was a big transformation year for the Alliance. The Alliance sold Network Health and completely exited the managed care business to focus on the operations of the Provider Network.

The Provider Network's focus is on transforming to an Accountable Care - Patient Centered Medical Home (ACO – PCMH) where patients will receive excellent care managed by their physicians at the Alliance. In 2012, the Alliance was able to complete 75% of the implementation of an electronic medical record system. This implementation has been in process for 6 years, and is expected to be 100% complete in 2013. The electronic availability of health records to physicians throughout the Alliance is allowing the Alliance to move forward with the ACO-PCMH model of care.

The Alliance continues to stay current on Radiology technology. In 2012, the Alliance completed renovations to the MRI unit at the Whidden Memorial Hospital and entered into a 5-year lease agreement for a new state-of-the-art MRI Magnetom Espree. In FY 13, the Alliance entered into 5-year lease agreements to lease 64 Slice VCT at Cambridge Hospital and Whidden Hospital.

Financial Highlights

	2008	2009	2010	2011	2012
Patient service revenues	$ 221,227,532	$ 243,857,512	$ 224,882,573	$ 230,455,007	$ 282,231,793
Premium revenue	646,493,257	720,975,904	740,874,652	895,005,870	
Federal and state support	194,327,797	170,471,858	168,144,064	152,500,000	153,682,347
Operating revenue from discontinued operations - Network Health					292,722,712
Medical expense	545,739,924	629,337,325	648,787,645	723,239,244	
Operating expenses from discontinued operations - Network Health					256,252,125
Operating expenses	1,118,238,806	1,217,202,439	1,191,210,531	1,282,810,713	791,620,172
Excess (deficiency) of revenues over expenses	(2,445,868)	(25,303,208)	2,029,707	55,384,292	44,135,993
Operating cash flows	74,713,095	81,810,861	(74,160,185)	147,285,454	9,663,674
Patient days	94,703	79,849	64,212	63,684	62,027
Discharges	16,904	15,537	12,514	12,751	13,345
Average length of stay (days)	6	5	5	5	5
Number of licensed beds	510	494	494	494	494
Outpatient clinic visits	685,680	706,134	641,098	628,491	664,875
Managed care members	162,253	159,874	164,120	173,692	-
Cash and cash equivalents	$ 176,631,927	$ 252,446,761	$ 168,774,287	$ 302,189,836	$ 253,347,971
Total assets	552,444,616	532,544,895	519,468,817	580,633,800	528,189,379
Working capital	64,229,447	35,901,207	69,281,473	138,737,888	172,906,584
Short-term debt and current portion of capital lease obligations	10,800,282	8,589,140	7,569,043	6,303,298	5,760,409
Long-term debt and noncurrent portion of capital lease obligations	46,429,050	37,901,934	30,995,080	27,721,708	17,906,628
Net assets	222,565,244	201,151,708	208,939,319	264,525,811	308,886,261
Capital spending	$ 22,542,914	$ 9,796,710	$ 9,914,375	$ 21,745,162	$ 22,466,555
Current ratio	1.28	1.14	1.31	1.61	2.24
Debt to equity	20 %	19 %	16 %	11 %	7 %

Overview of the Basic Financial Statements

The basic financial statements (statement of net assets, statement of revenue, expenses, and changes in net assets, and statement of cash flows) present the financial position of the Alliance at June 30, 2012, and the result of its operations and its financial activities for the year then ended. The statement of net assets includes all of the Alliance's assets and liabilities. The statement of revenue, expenses, and changes in net assets reflect the year's activities on the accrual basis of accounting, when services are provided or obligations are incurred, not when cash is received or paid. This statement also reports other

changes in the Alliance's net assets. The statement of cash flows provide relevant information about cash receipts and cash payments and classify them as to operating, investing, and capital and related financing activities. The basic financial statements include notes that explain information in the basic financial statements and provide more detailed data.

Capital Assets and Debt Administration

At June 30, 2012, the Alliance had capital assets, net of accumulated depreciation, of $186.6 million compared to $194.2 million at June 30, 2011, as shown in the table below (in thousands):

	2012	2011
Land and improvements	$ 9,152	$ 9,101
Buildings and improvements	210,979	208,618
Equipment	206,673	187,113
Construction in progress	2,454	14,182
Capital leases	68,619	76,158
Less: Accumulated depreciation	(311,282)	(300,975)
Total	$ 186,595	$ 194,197

The Alliance Board of Trustees (the "Board") approved a capital budget for fiscal year 2012 of $10 million, including $5 million for the EPIC Electronic Medical Record System. The Board approved an additional $9.8 million budget amendment during the fiscal year for additional clinical and infrastructure replacement and upgrades, including $2.4 million for clinical equipment, $2.6 million for boiler replacement at Cambridge Hospital and Whidden Memorial Hospital, $0.9 million for Operating Room HVAC at Whidden Memorial Hospital, $2.3 million for other constructions, and $1.6 million for other infrastructure replacement and upgrades.

The Alliance has been focused on improving quality, safety and efficiency of our healthcare delivery system, and has been working since 2002 to implement the EPIC System Electronic Medical record in the ambulatory clinics and inpatient units. In February 2009, Congress passed the American Recovery and Reinvestment Act of 2009 (ARRA) which provides incentives through Medicare and Medicaid for physicians and hospitals to achieve "meaningful use" of an electronic medical record. The Alliance received $3 million in fiscal year 2012. EPIC Inpatient systems went live at the Whidden campus during April 2012, and at the Cambridge and Somerville campuses during May 2012. Meaningful use of EPIC Electronic Medical Record Systems was completed in May 2012. The implementation of EPIC Inpatient systems is expected to continue through fiscal year 2013.

The Board approved a capital budget for fiscal year 2013 of $15.8 million, including $5.8 million for the EPIC Inpatient Electronic Medical Record system.

More detailed information about the Alliance's capital assets is presented in Note 6 to the financial statements.

The Alliance's debt is comprised of general obligation bonds payable to the City of Cambridge, various capital leases for property and equipment, including tax exempt financing through the Massachusetts Health and Education Finance Authority (MHEFA), and financing for the purchase of 237 Hampshire Street. Below is a schedule of the Alliance's debt as of June 30, 2012 (in thousands):

General obligation bonds payable to the City of Cambridge	$ 8,995
Capital leases – tax exempt through MHEFA	816
Capital leases – property	11,513
Capital leases – medical equipment	1,637
237 Hampshire Street. note payable	675
Interest-free loan	31
	$ 23,667

At June 30, 2012, the current portion of long-term debt is approximately $5.7 million.

Financial Statement Summary

Summary of Net Assets (In thousands) –

	2012	2011	Percent Change
Current assets	$ 312,452	$ 365,134	(14)%
Capital assets	186,595	194,197	(4)%
Other noncurrent assets	29,142	21,303	37 %
Total assets	528,189	580,634	(9)%
Current liabilities	139,545	226,396	(38)%
Postemployment benefits	31,386	25,344	24 %
Bonds payable	7,495	8,995	(17)%
Commercial loan		5,333	(100)%
Capital leases	9,791	13,394	(27)%
Other liabilities	31,086	36,646	(15)%
Total liabilities	219,303	316,108	(31)%
Net assets			
Unrestricted	141,626	99,190	43 %
Invested in capital assets – net of related debt	162,928	160,173	2 %
Restricted	4,332	5,163	(16)%
Total net assets	$ 308,886	$ 264,526	17 %

Assets

Current Assets –

Liquidity –
At June 30, 2012, cash and cash equivalents decreased $48.8 million or 16% from June 30, 2011. CHA reported cash from operations of $9.7 million, received $130 million as proceeds from the sale of NHI, and transferred $154.5 million to NH LLC, purchased capital assets of $19.8 million, and made principal and interest payments on debt of $13.5 million including $6.9 million to payoff the commercial loan and to terminate the related interest rate swap agreement. The liquidity ratio of unrestricted liquid assets to debt service as of June 30, 2012 is 10.7 to 1 and at June 30, 2011 was 8.9 to 1.

Net accounts receivable increased $15.5 million or 87% from $17.8 million at June 30, 2011 to $33.3 million at June 30, 2012 primarily related to the receivable from Health Safety Net (HSN). The state is in the process of converting the HSN claims processing system, and so a remittance was not received for the month of June 2012. In addition, CHA experienced a 5% increase in inpatient volumes and a 6% increase in outpatient volumes in FY 12.

Premium receivable due from the State decreased from $22.5 million at June 30, 2011 to zero at June 30, 2012. All premium receivables were transferred to NH, LLC. as part of the sale agreement.

Prepaid expenses decreased $2.6 million or 38% from $6.9 million at June 30, 2011 to $4.3 million at June 30, 2012 and other current assets decreased $6.0 million or 43% from $14.0 million at June 30, 2011 to $8.0 million at June 30, 2012 mainly to the sale of Network Health, Inc.

Noncurrent assets –
Assets whose use is limited increased $7.7 million or 49% from $15.7 million at June 30, 2011 to $23.4 million at June 30, 2012. The increase is attributable to $15.0 million which was restricted as part of the sale of NHI pending final requirements of the sale, as partially offset by $6.5 million released from restricted collateral when the commercial loan was paid off, and $1 million which was required to be held in escrow related to NHI's contract with MassHealth which was released with the sale of NHI. Additionally, the Alliance increased funds held for malpractice claims by $0.6 million and released $0.4 million of funds restricted by the board for funded depreciation as funds were spent on the related capital projects.

Current Liabilities –
Accounts payable and accrued expenses decreased $78.4 million or 76% from June 30, 2011 to June 30, 2012, relating mainly to the sale of Network Health.

Accrued salaries and compensated absences increased $3.9 million or 11% in fiscal year 2012 to $39.9 million related to the timing of the regularly scheduled pay dates, and accruals for open contracts of collective bargaining units.

Current settlements due to third-party payors decreased $13.0 million or 42% from $30.9 million at June 30, 2011 to $17.9 million at June 30, 2012 mainly due to the sale of NHI.

Current capital lease obligations decreased slightly from $4.3 million at June 30, 2011 to $4.2 million at June 30, 2012. Payments of $4.2 million were made based on the amortization schedules.

Deferred revenue increased $1.3 million in fiscal year 2012. The majority of the balance in deferred revenue relates to an agreement with the Commonwealth's Division of Medical Assistance (DMA) to provide health services to low-income uninsured patients in the Alliance's service area that are not reimbursed by third-party payors.

Other Liabilities –
Long-term settlements due to third-party payors decreased $6.2 million or 17% from $36.6 million at June 30, 2011, to $30.5 million at June 30, 2012. A portion of the amounts due to third-parties was classified as noncurrent because such amounts, by their nature or by virtue of regulation or legislation, will not be assessed within one year.

The Alliance recorded an accrual for post employment benefits in the amount of $6.0 million in fiscal year 2012 as required by Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Noncurrent capital lease obligations decreased $3.6 million or 27% from $13.4 million at June 30, 2011 to $9.8 million at June 30, 2012. The capital lease for the building at Station Landing was amended to terminate the lease of 5,434 square feet of space on the first floor reducing the liability by $0.8 million. The Alliance entered into 5 year equipment leases for Ultrasounds, IV pumps, and lab analyzers. The total of the new agreements amounted to $1.6 million.

Summary Statements of Revenue, Expenses, and Changes in Net Assets
(In thousands)
Years ended June 30, 2012 and 2011

	2012	2011	Percent Change
Operating revenue			
Net patient service revenue	$ 282,232	$ 230,455	22 %
Premium revenue from discontinued operations - Network Health		895,006	(100)%
Federal and state support	153,682	152,500	1 %
Other operating revenue	51,709	55,104	(6)%
Operating revenue from discontinued operations - Network Health	292,723	-	100 %
Total operating revenue	780,346	1,333,065	(41)%
Operating expenses			
Salary and benefits	367,791	381,567	(4)%
Supplies	43,693	45,653	(4)%
Service	91,791	101,552	(10)%
Medical expense	-	723,239	(100)%
Travel and training	3,649	3,610	1 %
Operating expenses from discontinued operations - Network Health	256,252	-	100 %
UCP uniform expense	1,675	1,796	(7)%
Depreciation and amortization	26,439	25,342	4 %
Other expense	97	51	90 %
Other operating expenses from discontinued operations - Network Health	233	-	100 %
Total operating expenses	791,620	1,282,810	(38)%
Gain/Loss from operations	(11,274)	50,255	(122)%
Nonoperating revenue (expenses)			
Interest income	761	920	(17)%
Interest expense	(1,300)	(1,513)	(14)%
Tax support	6,000	6,000	0 %
Gain on Sale of Network Health	50,024	-	100 %
Loss on disposal of fixed assets	(75)	(277)	(73)%
Total nonoperating revenue – net	55,410	5,130	980 %
Excess (deficiency) of revenue over expenses	44,136	55,385	(20)%
Other restricted donations	224	202	11 %
Increase (Decrease) in net assets	44,360	55,587	(20)%
Net assets – Beginning of year	264,526	208,939	27 %
Net assets – End of year	$ 308,886	$ 264,526	17%

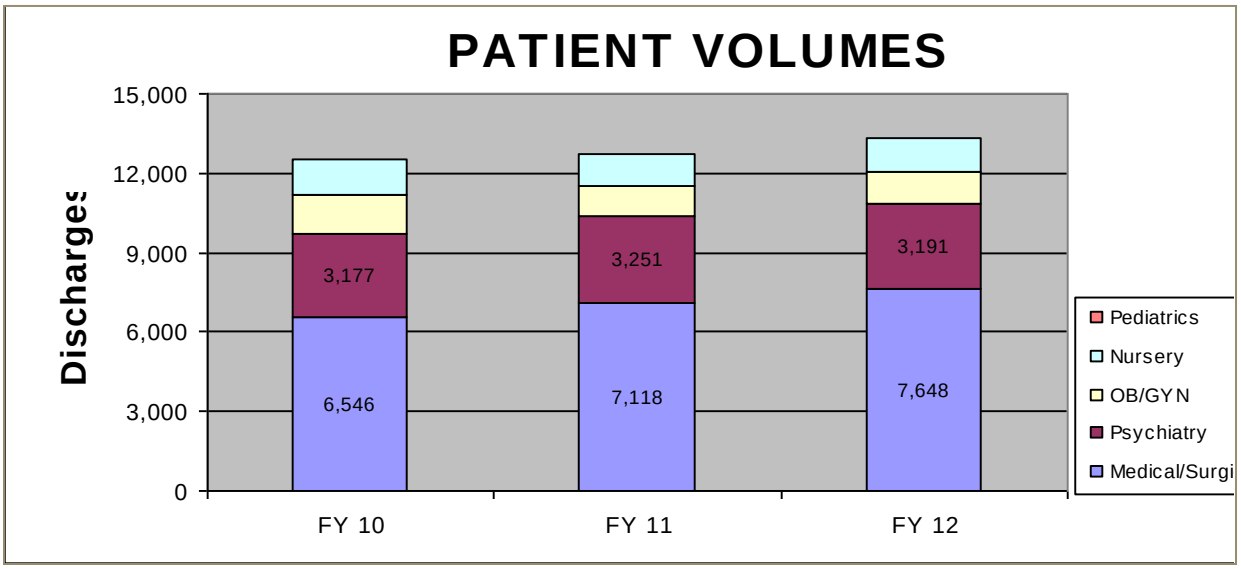
Patient Volumes

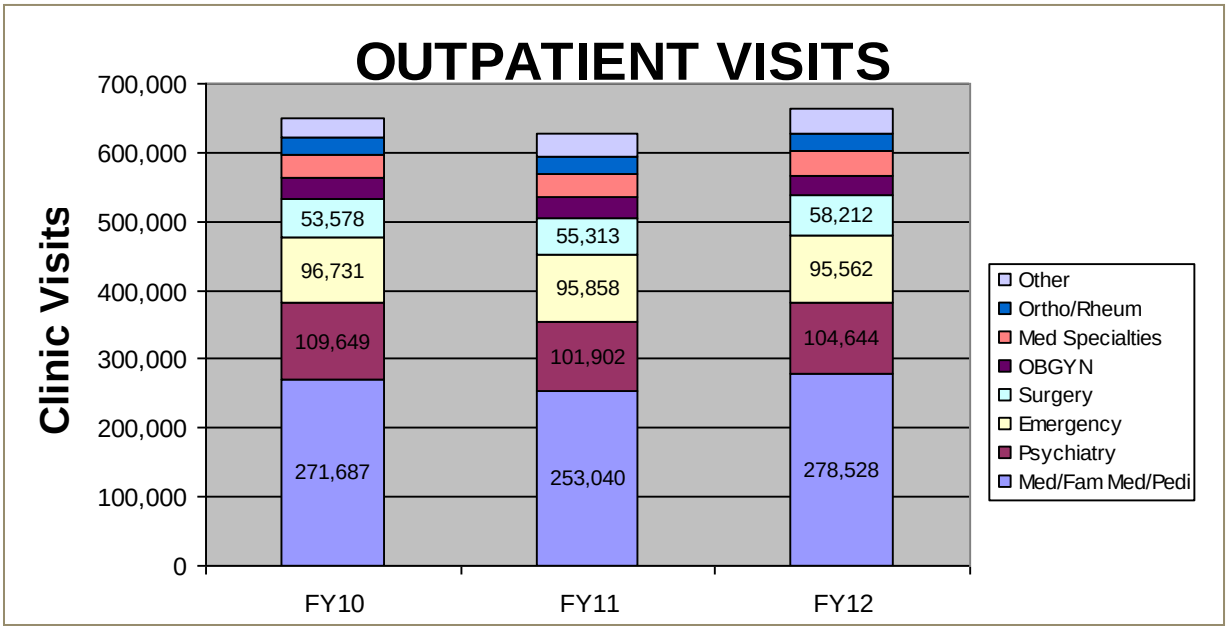
The Alliance's patient days decreased about 1,700 or 3% in fiscal year 2012. The reduction in patient days occurred in medical/surgical and behavioral health. There was a reduction of 78 discharges in Behavioral Health. The average length of stay decreased by 0.35.

Discharges increased about 600 or 5% in fiscal year 2012. The increase in discharges relates to a review of patients who were previously being classified as observation and having both case managers as well as physicians and are now being classified appropriately.

Clinic visits increased about 36,000 or 6%. Most of the increase relates to primary care visits which increased 24,000. The focus in FY 2012 was to increase the overall number of clinic visits to the organization by reducing patient wait times for appointments, opening physician schedules, increasing physician panel sizes and keeping patient referrals inhouse as much as possible.

The graphs below show actual volumes for fiscal year 2010, fiscal year 2011 and fiscal year 2012:





Operating revenue decreased 41% and operating expenses decreased 38% in fiscal year 2012. The organization reports a loss from operations of $11.3 million in fiscal year 2012 compared to a gain from operations of $50.3 million in fiscal year 2011.

Operating Revenue –
Operating Revenue decreased $552.7 million or 41% from fiscal year 2011 to fiscal year 2012. The Provider Network reports an increase of $33.1 million in fiscal year 2012. This was offset by Network Health's operating revenue for 4 months through October 31, 2011 was $293.7 million compared to $906.0 million for fiscal year 2011.

On the Provider Network net patient service revenue increased $30.6 million, and Federal and State support increased $1.2 million. The increase in net patient service revenue relates to increases with the Hospital Network, particularly in the activity related to commercial, Medicare and Medicated PPC payors. Most of the increase can be attributed to the increase in volume for these payors. Medicare also had an increase in the wage index rate which had a very positive impact on the overall reimbursement. Federal and State support includes supplemental and safety net revenue of $101.2 million and Health Safety Net revenue of $52.5 million compared to $102.5 million and $50.0 million in fiscal year 2011.

Operating Expenses –
Operating expenses decreased $491.2 million or 38% in fiscal year 2012.

Network Health's operating expenses for 4 months of fiscal year 2012 were $271.5 million compared to fiscal year 2011 of $814.5 million. Decrease due to only 4 months of activity in fiscal year 2012.

The Provider Network's operating expenses increased $25.3 million in fiscal year 2012. This increase relates to an increase in salary and benefit expense of $16.1 million, an increase in service expense of $6.5 million, and an increase of depreciation expense of 1.8 million.

Results From Operations –
The Alliance reported a net income of $44.1 million for fiscal year 2012 compared with a $55.4 million net income in fiscal year 2011, a change of $11.2 million.

The Provider Network reported a net loss of $28.5 million for fiscal year 2012 compared to a net loss of $36.9 million for fiscal year 2011.

The Alliance recognized a gain of $50.0 million from the sale of Network Health, Inc. Additionally, for the 4 months ended October 31, 2011, Network Health, Inc. reported net income of $22.0 million.

Outlook to the Future
CHA's search for a new clinical strategic partner, a strategic affiliation that could enhance care provided by both organizations, to deliver better, broader, and more affordable care to improve the quality of life for patients in the respective communities, is at an important stage.

The Board of Trustees at the Cambridge Health Alliance has established a primary focus for the organization to create the key concept of financial viability and sustainability which will be essential to ensuring our ability to maintain the mission and commitments to our communities.

In March the organization welcomed Pat Wardell as CHA's new CEO. In July we welcomed four new Trustees. The Board believes that these changes provide CHA a fresh perspective and further build on the talent and expertise of our Trustees, Clinicians, and Staff.

In this extremely challenging economic climate, our Trustees and Senior Leadership understand the importance of educating our patients, clinicians, and staff in how critically interconnected a strategic partnership, sustainability, and efficiency are to the future.

The platform CHA was built on is changing. The current hyperactive market force in Massachusetts is resulting in many new forms of affiliations among health care organizations. The implementation of the new Federal ACA law and the Massachusetts Payment Reform law will develop new payment structures which could create new funding challenges for safety-net institutions like CHA.

During fiscal year 2013 the Board of Trustees and Senior Leadership will roll out a Multi-Year Operational Improvement Strategy to Achieve Financial Sustainability. The Multi-Year plan will establish improved bottom line goals that will progressively eliminate our current year deficit, establish a goal of no less than a break-even operating performance by fiscal year 2015, and set a 2.0% operating margin goal beginning in fiscal year 2016, and the immediate succeeding fiscal years.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Statements of Net Assets
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 253,347,971	$ 302,189,836
Patient accounts receivable - less allowance for doubtful accounts of $54,319,000 and $49,209,000 in 2012 and 2011, respectively	33,262,335	17,822,266
Premium receivable	-	22,468,399
Inventories	1,998,296	1,748,972
Prepaid expenses	4,319,101	6,936,721
Other current assets	7,985,760	13,967,949
Current assets of discontinued operations - Network Health	11,538,108	-
Total current assets	312,451,571	365,134,143
Assets whose use is limited or restricted		
Internally restricted by Board for funded depreciation	53,650	472,831
Held for loan collateral	4,053,000	10,543,860
Held for malpractice claims	4,172,000	3,586,000
Held for trustee for insolvency fund	100,000	1,100,000
Held pending final requirements of NHI sale	15,023,223	-
Total assets whose use is limited or restricted	23,401,873	15,702,691
Capital assets-net	186,595,124	194,197,361
Other assets	5,740,811	5,599,605
	$ 528,189,379	$ 580,633,800
Liabilities and Net assets		
Current liabilities		
Accounts payable and accrued expenses	$ 25,203,784	$ 103,601,394
Accrued salaries and compensated absences	39,892,661	35,996,721
Due to third parties-current	17,924,053	30,941,630
Bonds payable-current	1,500,000	1,500,000
Note payable-current	55,303	-
Commercial loan-current	-	533,333
Capital lease obligations-current	4,205,106	4,269,965
Deferred revenue	45,346,920	44,079,905
Postemployment benefits - current	5,417,160	5,473,307
Total current liabilities	139,544,987	226,396,255
Due to third parties-noncurrent	30,465,704	36,646,262
Post employment benefits - noncurrent	31,385,799	25,343,764
Bonds payable-noncurrent	7,495,000	8,995,000
Note payable-noncurrent	620,200	-
Commercial loan	-	5,333,334
Capital lease obligations-noncurrent	9,791,428	13,393,374
Total liabilities	219,303,118	316,107,989
Net assets		
Unrestricted	141,625,812	99,190,141
Invested in capital assets-net of related debt	162,928,087	160,172,355
Restricted	4,332,362	5,163,315
Total net assets	308,886,261	264,525,811
	$ 528,189,379	$ 580,633,800

The accompanying notes are an integral part of these financial statements.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenue		
Net patient service revenue (net of provision for bad debts of $24,502,162 and $21,463,504 in 2012 and 2011, respectively)	$ 282,231,793	$ 230,455,007
Federal and state support	153,682,347	152,500,000
Other operating revenue	51,709,280	50,414,270
Operating revenue from discontinued operations - Network Health	292,722,712	899,695,816
Total operating revenue	780,346,132	1,333,065,093
Operating expenses		
Salary and benefits	367,791,369	351,731,060
Supplies	43,693,331	43,239,394
Service	91,790,746	85,241,105
Travel and training	3,649,183	3,114,423
Operating expenses from discontinued operations - Network Health	256,252,125	772,295,737
Total service line expenses	763,176,754	1,255,621,719
Other operating expenses		
Uncompensated care pool uniform expense	1,674,578	1,796,435
Depreciation and amortization	26,438,505	24,609,028
Other expenses	97,135	50,790
Other operating expenses from discontinued operations - Network Health	233,200	732,741
Total operating expenses	791,620,172	1,282,810,713
Income (loss) from operations	(11,274,040)	50,254,380
Nonoperating revenue (expenses)		
Interest income	350,037	411,595
Net increase in the fair value of investments	-	141
Interest expense	(1,300,473)	(1,513,068)
Tax support	6,000,000	6,000,000
Gain on Sale of Network Health	50,024,396	-
Loss on disposal of fixed assets	(83,354)	(277,079)
Other nonoperating income from discontiuned operations - Network Health	419,427	508,323
Total nonoperating revenue-net	55,410,033	5,129,912
Excess of revenue over expenses	44,135,993	55,384,292
Other restricted donations	224,457	202,200
Increase in net assets	44,360,450	55,586,492
Net assets		
Beginning of year	264,525,811	208,939,319
End of year	$ 308,886,261	$ 264,525,811

The accompanying notes are an integral part of these financial statements.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 295,335,917	$ 225,798,453
Cash received from other governmental sources - net	149,538,756	232,568,785
Cash received for managed care premiums	297,164,924	898,723,084
Cash received from federal and state grants	14,990,494	13,606,534
Other receipts	20,431,137	30,006,933
Cash paid to employees for personal services and fringe benefits	(361,176,314)	(370,519,458)
Payments for managed care claims	(250,835,825)	(712,397,248)
Cash paid for other than personal services	(155,785,415)	(170,501,629)
Net cash provided by operating activities	9,663,674	147,285,454
Cash flows from investing activities		
Cash released from noncurrent assets by board for funded depreciation	(752,819)	4,534,157
Cash restricted	(6,946,363)	2,175,403
Interest received	736,978	937,405
Redemption of long-term investments	-	141
Net cash (used in) provided by investing activities	(6,962,204)	7,647,106
Cash flows from capital and related financing activities		
Net cash received for restricted gifts and related income	224,457	202,200
Proceeds from the sale of fixed assets	7,872	38,814
Purchase of capital assets	(19,761,201)	(18,513,432)
Payments on capital leases	(4,188,194)	(5,539,281)
Capital lease interest payments	(553,346)	(779,856)
Payment of City of Cambridge bond-principal	(1,500,000)	(1,500,000)
Payment of City of Cambridge bond-interest	(236,250)	(540,000)
Payments on note payable of 237 Hampshire Street	(4,497)	-
Note payable of 237 Hampshire Street interest payments	(2,550)	-
Payment of swap termination	(1,030,000)	-
Payment of commercial loan-principal	(5,866,667)	(533,333)
Payment of long-term bond-interest	(87,383)	(352,123)
Cash transfer to NHI LLC	(154,545,576)	-
Proceeds from the sale of NHI	130,000,000	-
Net cash (used in) capital and related financing activities	(57,543,335)	(27,517,011)
Cash flows from noncapital financing activities		
Cash appropriations received from City of Cambridge	6,000,000	6,000,000
Net (decrease) increase in cash and cash equivalents	(48,841,865)	133,415,549
Cash and cash equivalents		
Beginning of year	302,189,836	168,774,287
End of year	$ 253,347,971	$ 302,189,836

The accompanying notes are an integral part of these financial statements.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of excess (deficiency) of revenue over expenses to net cash provided by operating activities		
Excess (deficiency) of revenue over expense	$ 44,135,993	$ 55,384,292
Adjustment to reconcile deficiency of revenue over expenses to net cash provided by operating activities		
Sale of NHI	24,545,577	-
Loss on disposal of fixed assets	2,344,200	277,079
Net (increase) decrease in fair value of investments	-	(141)
Depreciation and amortization	26,671,705	25,341,769
Provision for bad debts	24,502,162	21,463,504
Interest paid	1,300,473	1,513,068
Tax support	(6,000,000)	(6,000,000)
Interest received	(736,978)	(937,405)
Change in assets and liabilities		
(Increase) in patient accounts receivables	(39,942,231)	(22,114,465)
Decrease (increase) in premium receivables	22,468,399	(16,970,770)
(Increase) in inventories	(249,324)	(52,855)
(Increase) in other current assets	(5,593,599)	(793,265)
Decrease (increase) in prepaid expenses	2,617,620	(1,604,272)
Decrease in due from third parties	-	81,704,550
(Increase) in other assets	(141,206)	(1,910)
Increase (decrease) in accounts payable and accrued expenses	(78,209,823)	3,256,625
(Decrease) increase in salaries and compensated absences	3,895,940	4,270,767
Increase in postemployment benefits	5,985,888	2,286,224
(Decrease) increase in due to third parties	(19,198,135)	1,526,312
Increase (decrease) in deferred revenue	1,267,013	(1,263,653)
Net cash provided by operating activities	$ 9,663,674	$ 147,285,454
Noncash financing activities-capital leases & financing	$ 1,635,824	$ 3,033,497

The accompanying notes are an integral part of these financial statements.

1. Organization

The Cambridge Public Health Commission ("CPHC"), dba Cambridge Health Alliance (the Alliance), is a public instrumentality. It was created effective July 1, 1996 (the "Effective Date") by Chapter 147 of the Acts of 1996 of the Commonwealth of Massachusetts (the "Enabling Act") as a public health care system comprising the operations and facilities of the City of Cambridge's Department of Health and Hospitals (the "Department") and Somerville Hospital.

On the Effective Date, all of the Department's cash, accounts receivable, inventory, and other personal property were transferred to the Alliance, and the Alliance assumed all of the debt and other obligations of the Department, except that bonds and notes issued by the City of Cambridge (the "City") remained general obligations of the City. The transfer of real property from the City to CPHC was effected by a 50-year lease dated as of the Effective Date. The Department was abolished on the Effective Date.

As provided in the Enabling Act, the Alliance also acquired Somerville Hospital on the Effective Date and subsequently consolidated the operations of Somerville Hospital into those of the Alliance. On July 1, 2001, CPHC acquired Whidden Memorial Hospital ("Whidden") in Everett, Massachusetts, and related assets and subsequently consolidated the operations of Whidden into those of the Alliance.

CPHC is governed by a 19-member board of trustees (the "Board"). The members of the Board are CPHC's chief executive officer who serves ex-officio and the following members who are appointed by the City Manager of the City of Cambridge upon nomination by the Board: two officers or employees of the City of Cambridge, one member of the CPHC medical staff, and 15 members of the general public.

Although CPHC is a distinct and separate legal entity from the City, it is included as a discretely presented component unit in the basic financial statements of the City.

CPHC has the following subsidiaries

- Somerville Hospital
- Whidden Memorial Hospital, Inc.
- Cambridge Health Alliance Physicians Organizations, Inc. (CHAPO)
- CHA Management Services, Inc (formerly Network Health, Inc. (formerly Cambridge Health Alliance Network Services Corporation))
- Institute for Community Health, Inc. (ICH)
- Cambridge Health Alliance Foundation, Inc. (formerly Alliance Foundation for Community Health, Inc. changed on March 2, 2012)

The Alliance is the sole member of each of these subsidiaries, except ICH. The Alliance is one of three members of ICH. The Alliance is a public instrumentality and all its subsidiaries are nonprofit corporations that have qualified as a tax-exempt organizations under Section 501 (c)(3) of the Internal Revenue Code (the "Code").

Prior to November 1, 2011 (“date of sale”) the collective operations of the Alliance and its subsidiaries consist of the following operating divisions: Provider Network, Network Health, and Commission. These divisions are reported in the combining financial statements that are supplemental schedules.

On November 1, 2011, Network Health, Inc. sold all assets and liabilities with the exception of NHI’s 403b Retirement Savings Plan to Network Health, LLC a subsidiary of Tufts Health plan for $130 million. In connection with the purchase and sale agreement, an "Earn-out Purchase Price" clause provides for additional consideration to be paid from the buyer to the seller based upon future earnings of NHI LLC and will be in effect for three years. Prior to the date of sale, Network Health, Inc. (now named CHA Management Services, Inc.) operated a Medicaid managed care plan and Commonwealth Care health insurance program pursuant to contracts with the Massachusetts Executive Office of Health and Human Services. Refer to note 13 for additional details.

The Alliance entered into an agreement with Neville Communities Home, Inc. (NCHI) whereby NCHI assumed the operation of the Michael J. Neville Manor (“Neville Manor”) effective March 1, 2001. The Alliance has entered into a 99-year lease with NCHI for the Neville Manor nursing home facility and related land and a 99-year lease with the Neville Assisted Living Limited Partnership (NALLP) for land to be used by NALLP for the development of an assisted living facility. The Alliance also agreed to provide loans to NCHI and NALLP and operating subsidies to NCHI. The Alliance has recorded an allowance for outstanding loan and accrued interest amounts to NCHI and NALLP as of June 30, 2012 and 2011, of 4,655,839 and $4,478,235, respectively, due to uncertainty regarding collection. There are no outstanding liabilities for operating subsidies as of June 30, 2012.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Alliance have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Under these standards, the Alliance is defined as a component entity.

The Alliance has adopted GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting*, which establishes guidance for applying standards and interpretations to the preparation of financial statements for proprietary fund activities. In accordance with GASB Statement No. 20, the Alliance complies with and observes all Financial Accounting Standards Board (FASB) statements and interpretations that were issued on or before November 30, 1989.

Use of Estimates

The preparation of the accompanying financial statements in accordance with GAAP 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
Cash and cash equivalents include unrestricted investments in highly liquid debt instruments with a remaining maturity of three months or less at the date of purchase.

Revenue Recognition
The Alliance has entered into payment agreements with Medicare, Medicaid, commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Alliance under these agreements includes prospectively determined rates per discharge, per day, and per visit, discounts from established charges, cost (subject to limits), and fee screens. Net patient service revenue is reported at the estimated net realizable amounts form patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by third-party payors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. A portion of the amounts due to third-parties has been classified as noncurrent because such amounts, by their nature or by virtue of regulation or legislation, will not be assessed within one year. During 2012 and 2011, changes in prior-year estimates increased net patient service revenue by approximately $4,000,000 and $2,500,000, respectively.

Effective October 1, 2007, the Commonwealth implemented Health Safety Net (HSN). HSN is a claims based system. Claims are adjudicated through the HSN system and the Alliance is reimbursed net of Intergovernmental Transfer payments.

Premium Revenue
Premiums are recorded as operating revenue in the month for which members are entitled to service. Premium revenue collected in advance is recorded as unearned premium revenue.

Health Care Service Cost Recognition
Network Health contracted with various health care providers for the provision of certain medical care services to its managed care members. Medical expenses included all amounts incurred by Network Health under the aforementioned contracts. The cost of managed health care services provided or contracted for was accrued in the period in which it was provided to a member based in part on estimates, including an accrual for medical services provided, but not reported to the Alliance. Amounts accrued were included in accounts payable and accrued expenses in the accompanying statements of net assets.

Statements of Revenue, Expenses, and Changes in Net Assets
In the accompanying statements of revenue, expenses, and changes in net assets, transactions deemed by management to be ongoing to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expenses.

Functional Expenses
Substantially, all expenses in the accompanying statements of revenue, expenses, and changes in net assets are related to the delivery of health care services.

Tax Support
The Alliance receives tax support from the City whereby the Alliance provides specified health services under an agreement which expires in fiscal year 2017. The annual payment amount is subject to appropriation by the City Council.

Inventories
Inventories are stated at the lower of cost or market using the first-in, first-out method.

Other Current Assets
Other current assets consist of miscellaneous receivables and grant receivables.

Assets Whose Use is Limited or Restricted
Assets whose use is limited or restricted include assets set aside by the Board for future capital improvements, including funded depreciation, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Assets whose use is limited or restricted also include collateral for a commercial loan, letters of credit, malpractice claims, and the Elder Services Program which is restricted by the Commonwealth and insolvency funds related to the managed care program (Network Health) prior to the sale.

Capital Assets
Capital assets are stated at cost, less accumulated depreciation. Donated capital assets are recorded at fair market value at date of donation, which is then treated as cost. Assets are depreciated on a straight-line basis over their estimated useful lives.

Capital lease assets and any related leasehold improvements are depreciated on a straight-line basis over the estimated useful life of the leased property or equipment if ownership of the property or equipment transfers by the end of the lease term, or the lease contains a bargain purchase option. Otherwise, they are depreciated over the shorter of the remaining lease term or estimated useful life of the leased property or equipment.

Leasehold improvements for property under operating leases are depreciated on a straight-line basis over the shorter of the remaining lease term or the estimated useful life of the assets.

The Alliance's policy is to capitalize assets with a cost of at least $2,500 and $500 for the years ended June 30, 2012 and 2011, respectively, and a useful life of at least two years.

Estimated useful lives of capital assets are determined based upon guidelines established by the American Hospital Association. The estimated useful lives of capital assets are as follows:

	Years
Land improvements	2 - 25
Building and improvements	5 - 40
Major movable equipment	3 - 20
Fixed equipment	5 - 25

Interest costs incurred on borrowed funds during the period of construction of capital assets are offset by tax-exempt interest income on borrowed funds and net interest costs are capitalized as a component of the costs of acquiring those assets. There were no interest costs capitalized during the years ended June 30, 2012 and 2011.

Capital Contributions
The Alliance has received certain capital contributions that are utilized to fund capital projects which would enhance patient access. Pursuant to GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,* these contributions are recognized as a separate component of changes in net assets. There were no capital contributions during the years ended June 30, 2012 and 2011.

Bond Issuance Costs
Expenses, as well as the original issue discount related to the issuance of bonds, are deferred and amortized over the period the bonds are outstanding using the straight-line method which approximates the effective interest rate method. Amortization expense for 2012 and 2011 amounted to $37,679 and $12,614, respectively.

Investments and Investment Income
Investments are composed primarily of Massachusetts Municipal Depository Trust funds, and money market funds.

Investments are recorded at fair value in the accompanying statements of net assets. Fair value is based on quoted market prices. Realized gains and losses on the sales of investments are determined by use of average cost. Declines in fair value that are judged to be other than temporary are reported as realized losses. Investment income is recorded as earned.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Income Taxes
The Alliance is exempt from taxation pursuant to the Enabling Act and from federal taxation because it is a public instrumentality performing an essential governmental function.

The Internal Revenue Service (IRS) has determined that Somerville Hospital, Whidden, CHAPO, CHA Management Services, Inc., ICH, and Cambridge Health Alliance Foundation, Inc. are exempt from federal income taxation because they are organizations described in Section 501(c)(3) of the Code. The IRS has further determined that none of these entities is a private foundation because each is a supporting organization described in Section 509(a)(3) of the Code, except for Somerville Hospital which is an organization described in Section 509(a)(1) of the Code. Somerville Hospital has requested a determination from the IRS that it too be considered a supporting organization under Section 509(a)(3). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

3. Deposits and Investments

Custodial credit risk is the risk that in the event of bank failure, the Alliance's deposits may not be returned to the Alliance. The Alliance does not have a deposit policy for custodial credit risk. As of June 30, 2012 and 2011, the carrying amount of the Alliance's bank deposits were $276,749,844 and $317,892,527, respectively, and the bank balances totaled $279,240,946 and $333,993,302, respectively. The amounts insured through the Federal Depository Insurance Corporation as of June 30, 2012 and 2011, were $60,155,671 and $37,052,163, respectively.

Outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

The Alliance's investment policy, which in management's belief is in compliance with the Commonwealth statutes, authorizes the Alliance's treasurer to invest in the following:

Investment Type	Moody's or Standard and Poor's Rating	Maximum Maturity
Money market mutual funds	AA or better	
U.S. Treasury obligations		
Federal agencies and U.S. government-sponsored enterprises		
Commonwealth of Massachusetts obligations	A or better	
Certificates of deposit	AA or better	1 year
Repurchase agreements	A or better	
Bankers' acceptances eligible for purchase by the Federal Reserve	A or better	
Commercial paper	A1 or better	270 days
Debt instruments, including corporate bonds	AA or better	1 year
Asset-backed securities	AAA	18 months

It is the Alliance's policy to limit its investments in corporate bonds and commercial paper to the ratings noted above. As of June 30, 2012 and 2011, all investments met these requirements. The Alliance has no limit on the amount that they may invest in any one issuer.

The Alliance had cash and investments as of June 30, 2012, as follows:

	Maturities	Fair Value
Operating cash	Current	$ 57,664,568
Investment in money market funds	Current	87,428,994
Investment in Massachusetts Municipal Depository Trust	Current	131,656,282
Total operating cash and investments		$ 276,749,844

Cash and investments as of June 30, 2012 and 2011, consist of the following:

	2012	2011
Operating cash	$ 57,664,568	$ 20,715,388
Investment in money market funds	87,428,994	82,086,883
Investment in Massachusetts Municipal Depository Trust	131,656,282	215,090,255
Total operating cash and investments	$ 276,749,844	$ 317,892,526

These investments are recorded in the statements of net assets as of June 30, 2012 and 2011, under the following captions:

	2012	2011
Cash and cash equivalents	$ 253,347,971	$ 302,189,836
Investments		
Assets whose use is limited or restricted		
Internally by board of funded depreciation	53,650	472,831
Held for loan collateral		
E-payable	1,053,000	1,052,630
Mystic lease letter of credit	1,500,000	1,657,895
Sentry letter of credit	1,500,000	1,657,895
Commercial loan		6,175,439
Held for malpractice claims	4,172,000	3,586,000
Held in escrow	15,023,223	
Held by trustee for insolvency fund	100,000	1,100,000
Total cash and investments	$ 276,749,844	$ 317,892,526

4. Charity Care

The Alliance provides charity care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Alliance does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue. The amount of foregone charges was $93,931,144 and $89,598,000 for the years ended June 30, 2012 and 2011, respectively. The equivalent percentage of charity care to all patients served was approximately 11.7% and 11.6% of total patient service charges for the years ended June 30, 2012 and 2011, respectively. Effective October 1, 2007, the Commonwealth implemented ("HSN") as the replacement to the Uncompensated Care Pool. The Alliance has recognized revenues of approximately $52,469,013 and $50,000,000 in fiscal 2012 and 2011, respectively, for expected reimbursement from HSN. This amount is included as federal and state support in the statements of revenue, expenses, and changes in net assets. The Alliance made payments to HSN in 2012 and 2011 in the amount of $1,674,578 and $1,796,435, respectively, which are included in other operating expenses in the accompanying statements of revenue, expenses, and changes in net assets.

Services rendered to Medicaid patients are reimbursed at less than cost, which the Alliance considers partial charity care. These charity care amounts were approximately $46,225,694 and $42,083,000 for the years ended June 30, 2012 and 2011, respectively.

5. Patient Service Revenue and Related Reimbursement and Accounts Receivable

Patient service revenue is reported net of allowances for contractual adjustments and bad debts for the years ended June 30, 2012 and 2011, as follows:

	2012	2011
Gross patient service revenue (excluding charity care of $93,931,144 and $89,598,496 in 2012 and 2011, respectively)	$ 867,725,137	$ 611,308,141
Less: Allowances for		
Contractual adjustments	560,991,182	359,389,630
Bad debts	24,502,162	21,463,504
Net patient service revenue	$ 282,231,793	$ 230,455,007

The Alliance's net patient accounts receivable and gross patient revenue from patients and third-party payors as of and for the years ended June 30, 2012 and 2011, were as follows:

	Net Patient Receivables		Gross Patient Revenue	
	2012	2011	2012	2011
Medicare	4 %	5 %	26 %	28 %
Medicaid	16 %	16 %	31 %	27 %
Blue cross	3 %	4 %	11 %	12 %
Commercial insurance	5 %	5 %	5 %	4 %
Patients (self-pay)	63 %	61 %	13 %	15 %
Other	9 %	9 %	14 %	14 %
	100 %	100 %	100 %	100 %

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Failure to comply with such laws and regulations can result in fines, penalties, and exclusion from the Medicare and Medicaid programs. The Alliance believes it is in compliance with all applicable laws and regulations.

The Alliance grants credit to patients, substantially all of whom are local residents. The Alliance generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies). As of June 30, 2012 and 2011, the Alliance had receivables from the Commonwealth (Medicaid) of $9,849,373 and $8,993,299, respectively.

6. Capital Assets

Capital assets as of June 30, 2012, are composed of the following:

	June 30, 2011	Additions	Transfer	Disposals	June 30, 2012
Capital assets-not being depreciated					
Land	$ 7,199,945	$ -	$ -	$ -	$ 7,199,945
Construction in progress	14,182,049	19,976,301	(31,704,139)		2,454,211
Total capital assets-not being depreciated	21,381,994	19,976,301	(31,704,139)	-	9,654,156
Capital assets-being depreciated					
Land and improvements	1,901,828		50,007		1,951,835
Building and improvements	208,617,589	854,430	2,627,170	(1,120,452)	210,978,737
Major moveable equipment	97,981,404		27,334,755	(9,464,164)	115,851,995
Fixed equipment	89,131,666		1,692,207	(1,904)	90,821,969
Property under capital leases	55,908,690			(8,109,701)	47,798,989
Equipments under capital leases	20,249,053	1,635,824		(1,065,022)	20,819,855
Total capital assets-being depreciated	473,790,230	2,490,254	31,704,139	(19,761,243)	488,223,380
Less: Accumulated depreciation for					
Land and improvements	858,605	110,707			969,312
Building and improvements	103,191,532	9,881,686		(512,671)	112,560,547
Major moveable equipment	78,483,761	9,422,270		(7,740,078)	80,165,953
Fixed equipment	71,811,648	2,611,792		(730)	74,422,710
Property under capital leases	26,687,722	2,714,568			29,402,290
Equipment under capital leases	19,941,595	1,902,312		(8,082,307)	13,761,600
Total accumulated depreciation	300,974,863	26,643,335	-	(16,335,786)	311,282,412
Total capital assets-being depreciated - net	172,815,367	(24,153,081)	31,704,139	(3,425,457)	176,940,968
Capital assets-net	$ 194,197,361	$ (4,176,780)	$ -	$ (3,425,457)	$ 186,595,124

Capital assets at June 30, 2011, are composed of the following:

	June 30, 2010	Additions	Transfer	Disposals	June 30, 2011
Capital assets-not being depreciated					
Land	$ 7,199,945	$ -	$ -	$ -	$ 7,199,945
Construction in progress	7,947,779	18,711,664	(12,477,394)		14,182,049
Total capital assets-not being depreciated	15,147,724	18,711,664	(12,477,394)	-	21,381,994
Capital assets-being depreciated					
Land and improvements	1,772,762		129,066		1,901,828
Building and improvements	202,799,149		6,061,304	(242,864)	208,617,589
Major moveable equipment	115,287,188		5,535,372	(22,841,156)	97,981,404
Fixed equipment	88,816,547		751,654	(436,535)	89,131,666
Property under capital leases	52,875,192	3,033,498			55,908,690
Equipments under capital leases	20,249,053				20,249,053
Total capital assets-being depreciated	481,799,891	3,033,498	12,477,396	(23,520,555)	473,790,230
Less: Accumulated depreciation for					
Land and improvements	748,801	109,804			858,605
Building and improvements	93,333,892	9,998,982		(141,342)	103,191,532
Major moveable equipment	93,276,209	7,156,623	731,191	(22,680,262)	78,483,761
Fixed equipment	70,198,815	2,729,092	(731,190)	(385,069)	71,811,648
Property under capital leases	23,680,498	3,007,224			26,687,722
Equipment under capital leases	17,614,163	2,327,432			19,941,595
Total accumulated depreciation	298,852,378	25,329,157	1	(23,206,673)	300,974,863
Total capital assets-being depreciated - net	182,947,513	(22,295,659)	12,477,395	(313,882)	172,815,367
Capital assets-net	$ 198,095,237	$ (3,583,995)	$ 1	$ (313,882)	$ 194,197,361

Depreciation expense relating to capital assets amounted to $26,634,025 and $25,329,157 for the years ended June 30, 2012 and 2011, respectively.

7. Long-Term Debt

Bonds Payable

Bonds payable as of June 30, 2012 and 2011, consists of the following:

	2012	2011
City of Cambridge, general long-term obligations, and The Cambridge Hospital	$ 8,995,000	$ 10,495,000
Less: Current portion	1,500,000	1,500,000
Long-term portion	$ 7,495,000	$ 8,995,000

On February 1, 1998, the City issued $30,000,000 of general obligation bonds for the benefit of The Cambridge Hospital to provide funds for the acquisition and construction of major capital facilities. These issues contained serial maturities through February 1, 2018, with an interest rate of 4.5%.

The City refunded $13,500,000 of these bonds in 2007 with the proceeds from general obligation bonds issued on March 15, 2007. As of June 30, 2012, $8,995,000 of the 2007 issue remains outstanding. Payment of principal and interest continue to be made by the Alliance based on the 1998 amortization schedule. The bonds remain the general obligation of the City.

Scheduled Debt Service Requirements
The annual scheduled debt service requirements as of June 30, 2012, on long-term debt in future years are as follows:

Years Ending June 30	Principal Payments	Interest Payments	Total Payments
2013	$ 1,500,000	$ 405,000	$ 1,905,000
2014	1,500,000	337,500	1,837,500
2015	1,500,000	270,000	1,770,000
2016	1,500,000	202,500	1,702,500
2017	1,500,000	135,000	1,635,000
2018-2019	1,495,000	67,500	1,562,500
Balance at June 30, 2012 (including bonds maturing within one year)	$ 8,995,000	$ 1,417,500	$ 10,412,500

Bonds payable activity for the years ended June 30, 2012 and 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2012					
Bonds payable-City of Cambridge bonds	$10,495,000	$ -	$ (1,500,000)	$ 8,995,000	$ 1,500,000
2011					
Bonds payable-City of Cambridge bonds	$11,995,000	$ -	$ (1,500,000)	$10,495,000	$ 1,500,000

Loans Payable
Loans payable as of June 30, 2012 and 2011, consists of the following:

	2012	2011
Bank of America commercial loan	$ -	$ 5,866,667
Less: Current portion	-	533,333
Long-term portion	$ -	$ 5,333,334

The Alliance entered into a commercial loan of $8 million with Bank of America to finance renovation of leased space at 195 Canal Street in Malden for Malden Family Health Center and Residents Program. The interest rate on the commercial loan was equal to the 30-day LIBOR, plus 0.50%. Subsequent to securing the loan, the Alliance entered into an interest rate swap agreement with Bank of America, N.A., on June 29, 2007, to manage interest rate risk caused by fluctuations in interest rates. Interest rate swaps involve the contractual exchange of fixed and floating rate interest payment obligations based on a notional principal amount. The agreement had a notional amount of $8,000,000. During 2012, the Alliance paid off the commercial in its entirety. The Alliance also terminated the swap agreement and paid a termination amount of $1,030,000. The Alliance had posted collateral for the commercial loan which was released at the termination of the agreement and payoff of the obligation.

Loans payable activity for the years ended June 30, 2012 and 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2012					
Loans payable-commercial loan	$ 5,866,667	$ -	$ (5,866,667)	$ -	$ -
2011					
Loans payable-commercial loan	$ 6,400,000	$ -	$ (533,333)	$ 5,866,667	$ 533,333

Note Payable

In 2012, the Alliance signed an agreement to purchase a condominium unit at 237 Hampshire Street in Cambridge, the location of the Cambridge Family Health practice. The space was previously rented through an operating lease agreement. The Alliance purchased the space for $850,000 with $680,000 financed through a note payable to the seller. The terms of the agreement are to amortize the note over 10 years with monthly payments of $7,047 at an interest rate of 4.5%.

Financing as of June 30, 2012, consists of the following:

	2012	2011
Note payable for 237 Hampshire Street Purchase	$ 675,503	$ -
Less: Current portion	55,303	-
Long-term portion	$ 620,200	$ -

Financing activity for the years ended June 30, 2012 and 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2012					
Note payable - 237 Hampshire Street	$ -	$ 680,000	$ (4,497)	$ 675,503	$ 55,303
2011					
Note payable - 237 Hampshire Street	$ -	$ -	$ -	$ -	$ -

Leases

A schedule of future minimum lease payments as of June 30, 2012, under capital and operating lease obligations is as follows:

Years Ending June 30	Capital Leases	Operating Leases
2013	$ 4,605,141	$ 5,584,145
2014	3,811,841	4,799,551
2015	3,585,931	3,650,147
2016	1,844,808	2,935,539
2017	1,044,029	1,659,354
2018-2019		31,425
	14,891,750	$ 18,660,161
Less:		
Amounts representing interest	895,216	
Current installments	4,205,106	
Noncurrent capital leases	$ 9,791,428	

Capital lease activity for the years ended June 30, 2012 and 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2012					
Capital lease obligations	$17,663,339	$ 1,635,824	$ (5,302,629)	$13,996,534	$ 4,205,106
2011					
Capital lease obligations	$20,169,123	$ 3,033,497	$ (5,539,281)	$17,663,339	$ 4,269,965

Leases that do not meet the criteria for capitalization are classified as operating leases with rentals expensed straight line over the term of the lease.

The Alliance leases office space under several operating lease arrangements. Rent expense amounted to $6,104,144 and $5,729,764 for the years ended June 30, 2012 and 2011, respectively.

8. Deferred Revenue

The Alliance received funds from the Commonwealth's Division of Medical Assistance to provide health services to low-income, uninsured patients in the Alliance's service area who are not reimbursed by third-party payors. The Alliance has deferred the cash received under this agreement because all eligibility requirements have not been met.

9. Claims Unpaid

The changes in the Network Health managed care claims unpaid liability, included in accounts payable and accrued expenses in the accompanying statements of net assets, for the years ended June 30, 2012 and 2011, are as follows:

	2012	2011
Claims unpaid-beginning of year	$ 77,760,815	$ 70,407,430
Incurred claims		
Current year	230,979,029	755,208,954
Prior years	(4,671,859)	(33,467,426)
Total incurred claims	226,307,170	721,741,528
Paid claims		
Current year	(169,135,280)	(675,475,702)
Prior years	(73,088,957)	(38,912,441)
Total paid claims	(242,224,237)	(714,388,143)
Transferred to NH LLC as part of sale agreement	(61,843,748)	-
Claims unpaid-end of year	$ -	$ 77,760,815

10. Retirement Plans

The Cambridge Hospital participates in the City of Cambridge Retirement System.

Plan Description
The City contributes to the Cambridge Retirement System ("System"), a cost sharing, multiemployer public employee retirement system that acts as the investment and administrative agent for the City, the Alliance, and Cambridge Housing Authority. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The System is a member of the Massachusetts Contributory System which is governed by Chapter 32 of the Massachusetts General Laws.

Contributions
Plan members are required to contribute to the System, depending on their employment date. Active members must contribute between 5% and 11% of their regular gross compensation depending on the date upon which their membership began. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution and plan administration costs. The Commonwealth Health Insurance Connector Authority reimburses the City for a portion of the benefit payments for cost-of-living increases. The contributions of plan members and the participating employers are governed by Chapter 32 of the Massachusetts General Laws.

Annual Pension Cost
The Alliance pays the City quarterly an amount determined by the City to be the Alliance's portion of the City's retirement contribution to the System. Amounts paid to the City by the Alliance, and recognized as pension costs, amounted to approximately $5,257,800, $5,017,900, and $4,871,700 for the years ended June 30, 2012, 2011, and 2010, respectively.

Somerville Hospital and Whidden Memorial Hospital

Plan Description

Effective January 1, 1987, Somerville Hospital established the Partnership Plan (the "Plan"), a defined contribution plan qualified under Section 403 (b) of the IRS code. On July 1, 2001, the Alliance purchased Whidden Memorial Hospital and these employees became eligible to participate in the Plan. The Plan is a deferred salary savings plan available to employees of Somerville Hospital and Whidden Memorial Hospitals. The Plan was amended and restated effective January 1, 2009 and then amended effective July 1, 2009 and further amended effective January 1, 2010 and on December 4, 2011.

Contributions

Under the Plan, Participants may contribute up to 100% of gross salary to the Plan, not to exceed annual limitations set by the IRS. The Alliance does make contributions to the Plan for employees with two or more years of service and who are in a position with weekly budgeted and scheduled hours of 20 or more or who are in a position with weekly budgeted and scheduled hours of less than 20 hours who work more than a 1,000 hours for each of those two years. The Alliance may make two types of contributions, a matching and a non elective ("core") contribution. These employer contributions are calculated on a bi-weekly basis for Participants eligible to receive the Employer contributions. The Alliance makes matching contributions equal to 1% of the Participant's gross compensation for every 1% voluntarily contributed up to 2% of gross compensation unless otherwise specified in a collective bargaining agreement. The Alliance makes a 2 % non elective ("core") contribution of the Participant's gross compensation whether or not the employee makes a voluntary contribution. All contributions to the Plan are fully vested at the time of contribution. The Alliance contributed approximately $3,678,000 and $3,503,000 for the years ended June 30, 2012, and 2011, respectively.

The Cambridge Health Alliance Physicians Organization, Inc.

Plan Description

CHAPO sponsors the CHAPO 403(b) Plan, a tax-sheltered annuity plan effective January 1, 1996, and amended the Plan effective October 1, 2007. Employees working at least 20 hours per week are eligible to participate in the Plan.

Contributions

Employees may elect to defer a portion of their compensation to the Plan, not to exceed annual limitations set by the IRS. For Employees who make voluntary contributions to the Plan CHAPO makes matching contributions of 1/3 of 1% of the participant's annual compensation for every 1% voluntarily contributed up to 6% of annual compensation for any participant actively employed during the Plan year. In addition, CHAPO may make a discretionary matching contribution up to 2% of the participant's annual compensation whether or not the employee makes a voluntary contribution. The discretionary matching contribution percentage is determined each year by the CHA Board, and eligible employees must be actively employed on the last day of the Plan year. The vesting period for both the Employer Contributions is two full years of service. The Alliance contributed approximately $2,148,000, and $2,036,000 to the CHAPO 403(b) plan for the years ended June 30, 2012 and 2011, respectively.

11. Other Postemployment Benefit Programs

Plan Description

All retired employees of The Cambridge Hospital are eligible for pension benefits and receive certain postretirement benefits, including healthcare, dental, and life insurance under Chapter 32 of the Massachusetts General Laws. These benefits are administered by the Cambridge Public Health Commission.

Funding Policy

The Alliance funds a portion of health insurance costs and life insurance premiums, with the remainder paid by the retirees.

For employees that retired prior to August 31, 2010, health insurance premiums are 90% paid by the Alliance, Medex III insurance premiums are 96% paid by the Alliance, and Medicare Part B premiums are 99% reimbursed by the Alliance.

Changes to the Plan were made and adopted as of June 30, 2010 and were effective for employees that retired after August 31, 2010. The changes included: Increasing retiree contributions to 50% of the premium for health benefits, Eliminating Medex III; and eliminating reimbursement of Medicare Part B premiums. These changes resulted in an overall reduction of the Alliance's post employment benefit liability.

For fiscal years 2012 and 2011, the Alliance contributed $5,002,736 and $5,077,423, respectively, for current premiums and self-insured claims. There were 1,600 plan members as of December 31, 2010, the most recent actuarial valuation date, including 557 current retirees, beneficiaries, and dependents.

Annual OPEB Cost and Net OPEB Obligation

The Alliance's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, 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 normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The Alliance's annual OPEB cost for the years ended June 30, 2012, and June 30, 2011, and related information were as follows:

	2012	2011
Annual required contribution	$ 11,452,580	$ 6,980,566
Interest on net OPEB obligation	1,386,768	1,426,542
Adjustment to ARC	(1,850,724)	(1,043,461)
Annual OPEB cost	10,988,624	7,363,647
Contributions made	(5,002,736)	(5,077,423)
Increase in net OPEB obligation	5,985,888	2,286,224
Net OPEB obligation		
Beginning of year	30,817,071	28,530,847
End of year	$ 36,802,959	$ 30,817,071

The OPEB actuarial accrued liability (AAL) as of June 30, 2012, as estimated as of December 31, 2010, by consulting actuaries amounted to $148,823,259. The following schedule of funding progress presents multi - year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets * (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
12/31/2008	-	124,531,620	124,531,620	0.00 %	N/A	N/A
12/31/2010	-	148,823,259	148,823,259	0.00 %	N/A	N/A

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 health care cost trend. Amounts determined regarding the estimated OPEB AAL and ARC are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the current plan provisions and include types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer 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 December 31, 2010, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% discount rate, pay-as-you-go scenario, and an annual health care cost trend rate of 9% grading to an ultimate rate of 5% in 2019 and thereafter. The plan's actuarial accrued liability is being amortized over a 30 year open period increasing at a rate of 4.5% per year.

12. Risk Management

Malpractice Insurance
The Alliance and its employees have malpractice insurance coverage through a claims-made basis insurance policy with per-claim limits of $5 million. As of June 30, 2012 and 2011, management believes there are no asserted or unasserted claims that would have a material adverse effect on the Alliance's financial position.

The Alliance is protected as a public employer as defined in Section 1 of Chapter 258 of the Massachusetts General Laws, which limits liability to a maximum of $100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain, and breach of contract.

Litigation
Various claims, generally and reasonably expected from normal business, are known or not yet known but reasonably expected to be asserted against the Alliance and its interests, employees, and volunteers. The Alliance will defend vigorously claims that it believes have no merit. While the ultimate financial impact of such liability, if any, arising from any such claim is presently indeterminable, it is management's opinion that the ultimate resolution of known claims or reasonably expected claims will not have a material adverse impact on the financial statements of the Alliance.

In addition, the health care industry, as a whole, is subject to numerous laws, regulations, and standards and expectations of federal, state, and local governments. Compliance with these can be subject to future governmental review and interpretation, as well as regulatory actions unknown or unasserted at this time. Such compliance in the health care industry has recently come under increased governmental scrutiny which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management does not believe that these matters will have a material adverse effect on Alliance's financial statements. Furthermore, Alliance's management realizes that such fines and penalties would not be covered by commercial insurance.

Workers' Compensation Insurance
The Alliance is insured for workers' compensation in a shared risk plan administered by Sentry Insurance. The insurance is structured to share the risk, so that the Alliance directly incurs and funds the cost of each claim, subject to a per-claim stop-loss limit of $250,000, and a $3,774,021 aggregate stop-loss for all claims in one year. This stop-loss is provided by Sentry Insurance, and the Alliance has pledged $1.5 million of its investments as collateral to a letter of credit related to this policy. As of June 30, 2012 and 2011, management believes there are no asserted or unasserted claims that would have a material adverse effect on the Alliance's financial statements. The Alliance's cost of workers' compensation benefits for fiscal 2012 and 2011 was $914,738 and $1,250,883, respectively, and is included in salary and benefits expenses in the accompanying statements of revenue, expenses, and changes in net assets.

13. Network Health, Inc. Sale

In June 2011, the Alliance entered into an asset purchase agreement with Network Health, LLC, a subsidiary of Tufts Health Plan, to sell the net assets of Network Health, Inc. The sale closed on November 1, 2011, resulting in a gain of $50 million. The gain is reported as non operating revenue in the statement of Revenue, Expenses, and Changes in Net Assets. Network Health Inc.'s financial statements were previously included in the "Network Health" section of the supplemental schedules. The operations of Network Health are included as revenue and expense from discontinued operations for 2012 and 2011 in the statement of Revenue, Expenses, and Changes in Net Assets.

14. Subsequent Events

Subsequent events have been evaluated through November 20, 2012, the date the financial statements were available to be issued.

Supplemental Schedules

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Combining Statements of Net Assets
June 30, 2012

	Combined Provider Network	Commission	Network Health	Eliminations	Total CHA
Assets					
Current assets					
Cash and cash equivalents	$ 35,636,471	$ 74,545,639	$ 143,165,861	$ -	$ 253,347,971
Intragroup accounts			10,414	(10,414)	-
Patient accounts receivable - less allowance for doubtful accounts of $54,319,000 and $49,209,000 in 2012 and 2011, respectively	33,262,335				- 33,262,335
Premium Receivable			-		-
Inventories	1,998,296				1,998,296
Prepaid expenses	4,319,101				4,319,101
Other current assets	7,961,007	15,347	9,406		7,985,760
Current assets of discontinued operations - Network Health			11,538,108		11,538,108
Total current assets	83,177,210	74,560,986	154,723,789	(10,414)	312,451,571
Assets whose use is limited or restricted					
Internally restricted by Board for funded depreciation	53,650				53,650
Held for loan collateral	4,053,000				4,053,000
Held for malpractice claims	4,172,000				4,172,000
Held for trustee for insolvency fund	100,000				100,000
Held pending final requirements of NHI sale	-		15,023,223		15,023,223
Total assets whose use is limited or restricted	8,378,650	-	15,023,223	-	23,401,873
Capital assets-net	181,135,124	5,460,000			186,595,124
Other assets	5,740,811				5,740,811
	$ 278,431,795	$ 80,020,986	$ 169,747,012	$ (10,414)	$ 528,189,379
Liabilities and Net Assets					
Current liabilities					
Accounts payable and accrued expenses	$ 24,754,184	$ 449,600	$ -	$ -	$ 25,203,784
Accrued salaries and compensated absences	39,892,661	-			39,892,661
Intragroup accounts	10,414			(10,414)	-
Due to third parties-current	17,924,053				17,924,053
Bonds payable-current	1,500,000				1,500,000
Note payable-current	55,303				55,303
Commercial loan-current	-				-
Capital lease obligations-current	4,205,106				4,205,106
Deferred revenue	3,832,554	41,514,366			45,346,920
Postemployment benefits-current	5,417,160				5,417,160
Total current liabilities	97,591,435	41,963,966	-	(10,414)	139,544,987
Due to third parties-noncurrent	30,465,704				30,465,704
Post employment benefits-noncurrent	31,385,799				31,385,799
Bonds payable-noncurrent	7,495,000				7,495,000
Note payable-noncurrent	620,200				620,200
Commercial loan-noncurrent	-				-
Capital lease obligations-noncurrent	9,791,428				9,791,428
Total liabilities	177,349,566	41,963,966	-	(10,414)	219,303,118
Net assets					
Unrestricted	(60,718,220)	32,597,020	169,747,012		141,625,812
Invested in capital assets-net of related debt	157,468,087	5,460,000	-		162,928,087
Restricted	4,332,362	-	-		4,332,362
Total net assets	101,082,229	38,057,020	169,747,012	-	308,886,261
	$ 278,431,795	$ 80,020,986	$ 169,747,012	$ (10,414)	$ 528,189,379

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Combining Statements of Net Assets
June 30, 2011

	Combined Provider Network	Commission	Network Health	Eliminations	Total CHA
Assets					
Current assets					
Cash and cash equivalents	$ 10,792,177	$ 56,114,108	$ 235,283,551	$ -	$ 302,189,836
Intragroup accounts	3,421,846			(3,421,846)	-
Patient accounts receivable-less allowance for doubtful accounts	21,563,987			(3,741,721)	17,822,266
Premium Receivable			22,468,399		22,468,399
Inventories	1,748,972				1,748,972
Due from third parties-current	-				-
Prepaid expenses	4,861,091		2,075,630		6,936,721
Other current assets	8,422,122	866	5,544,961		13,967,949
Total current assets	50,810,195	56,114,974	265,372,541	(7,163,567)	365,134,143
Noncurrent assets					
Restricted by board for funded depreciation	472,831				472,831
Held for loan collateral	10,543,860				10,543,860
Internally by board for malpractice claims	3,586,000				3,586,000
Held by trustee for insolvency fund	100,000		1,000,000		1,100,000
Total assets whose use is limited or restricted	14,702,691	-	1,000,000	-	15,702,691
Capital assets-net	186,160,957	5,460,000	2,576,404		194,197,361
Other assets	5,599,605				5,599,605
	$ 257,273,448	$ 61,574,974	$ 268,948,945	$ (7,163,567)	$ 580,633,800
Liabilities and Net Assets					
Current liabilities					
Accounts payable and accrued expenses	$ 23,795,803	$ 447,500	$ 83,099,812	$ (3,741,721)	$ 103,601,394
Accrued salaries and compensated absences	33,731,183		2,265,538		35,996,721
Intragroup accounts			3,421,846	(3,421,846)	-
Due to third parties-current	15,188,733		15,752,897		30,941,630
Bonds payable-current	1,500,000				1,500,000
Commercial loan-current	533,333				533,333
Capital lease obligations-current	4,269,965				4,269,965
Deferred revenue	1,726,966	41,514,366	838,573		44,079,905
Postemployment benefits	5,473,307				5,473,307
Total current liabilities	86,219,290	41,961,866	105,378,666	(7,163,567)	226,396,255
Due to third parties-noncurrent	36,646,262				36,646,262
Postemployment benefits	25,343,764				25,343,764
Bonds payable-noncurrent	8,995,000				8,995,000
Commercial loan	5,333,334				5,333,334
Capital lease obligations-noncurrent	13,393,374				13,393,374
Total liabilities	175,931,024	41,961,866	105,378,666	(7,163,567)	316,107,989
Net assets					
Unrestricted	(74,956,842)	14,153,108	159,993,875		99,190,141
Invested in capital assets-net of related debt	152,135,951	5,460,000	2,576,404		160,172,355
Restricted	4,163,315	-	1,000,000		5,163,315
Total net assets	81,342,424	19,613,108	163,570,279	-	264,525,811
	$ 257,273,448	$ 61,574,974	$ 268,948,945	$ (7,163,567)	$ 580,633,800

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Combining Statements of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2012

	Combined Provider Network	Commission	Network Health	Eliminations	Total CHA
Operating revenue					
Net patient service revenue (net of provision for bad debts of $24,502,162 and $21,463,504 in 2012 and 2011, respectively)	$ 296,212,214	$ -	$ -	$ (13,980,421)	$ 282,231,793
Premium revenue from discontinued operations - Network Health					-
Federal and state support	153,682,347				153,682,347
Other operating revenue	51,709,280				51,709,280
Operating revenue from discontinued operations - Network Health			293,723,953	(1,001,241)	292,722,712
Total operating revenue	501,603,841	-	293,723,953	(14,981,662)	780,346,132
Operating expenses					
Salary and benefits	367,791,369				367,791,369
Supplies	43,693,331				43,693,331
Service	91,558,790	187,456	44,500		91,790,746
Medical expenses					-
Travel and training	3,649,183				3,649,183
Operating expenses from discontinued operations - Network Health			271,233,787	(14,981,662)	256,252,125
Total service line expenses	506,692,673	187,456	271,278,287	(14,981,662)	763,176,754
Other operating expenses					
Uncompensated care pool uniform expense	1,674,578				1,674,578
Depreciation and amortization	26,438,505				26,438,505
Other expenses	97,135				97,135
Other operating expenses from discontinued operations - Network Health			233,200		233,200
Total operating expenses	534,902,891	187,456	271,511,487	(14,981,662)	791,620,172
Income (Loss) from operations	(33,299,050)	(187,456)	22,212,466	-	(11,274,040)
Nonoperating revenue (expenses)					
Interest income	148,890	201,147			350,037
Net increase in the fair value of investments					-
Interest expense	(1,300,473)				(1,300,473)
Tax support	6,000,000				6,000,000
Gain on sale of Network Health			50,024,396		50,024,396
Loss on disposal of fixed assets	(83,354)				(83,354)
Other nonoperating income from discontinued operations - Network Health			419,427		419,427
Total nonoperating revenue-net	4,765,063	201,147	50,443,823	-	55,410,033
Excess of revenue over expenses	(28,533,987)	13,691	72,656,289	-	44,135,993
Other restricted donations	224,457				224,457
Interdivision transfers	48,049,335	18,430,221	(66,479,556)		-
Increase in net assets	19,739,805	18,443,912	6,176,733	-	44,360,450
Net assets					
Beginning of year	81,342,424	19,613,108	163,570,279	-	264,525,811
End of year	$ 101,082,229	$ 38,057,020	$ 169,747,012	$ -	$ 308,886,261

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Combining Statements of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2011

	Combined Provider Network	Commission	Network Health	Eliminations	Total CHA
Operating revenue					
Net patient service revenue	$ 265,570,111	$ -	$ -	$ (35,115,104)	$ 230,455,007
Federal and state support	152,500,000				152,500,000
Other operating revenue	50,414,270	-	-		50,414,270
Operating revenue from discontinued operations - Network Health			906,021,809	(6,325,993)	899,695,816
Total operating revenue	468,484,381	-	906,021,809	(41,441,097)	1,333,065,093
Operating expenses					
Salary and benefits	351,731,060				351,731,060
Supplies	43,239,394				43,239,394
Service	85,061,875	179,230			85,241,105
Travel and training	3,114,423				3,114,423
Operation expenses from discontinued operations - Network Health			813,736,834	(41,441,097)	772,295,737
Total service line expenses	483,146,752	179,230	813,736,834	(41,441,097)	1,255,621,719
Other operating expenses					
UCP uniform expense	1,796,435				1,796,435
Depreciation and amortization	24,609,028				24,609,028
Other expenses	50,790				50,790
Other operating expenses from discontinued operating - Network Health			732,741		732,741
Total operating expenses	509,603,005	179,230	814,469,575	(41,441,097)	1,282,810,713
(Loss) income from operations	(41,118,624)	(179,230)	91,552,234	-	50,254,380
Nonoperating revenue (expenses)					
Interest income	23,849	387,746			411,595
Net increase in the fair value of investments	-	141			141
Interest expense	(1,513,068)				(1,513,068)
Tax support	6,000,000				6,000,000
Loss on disposal of fixed assets	(277,079)				(277,079)
Other nonoperating income from discontinued operations - Network Health			508,323		508,323
(Deficiency) excess of revenue over expenses	(36,884,922)	208,657	92,060,557	-	55,384,292
Capital contributions	-				-
Other Restricted Donations	202,200				202,200
Interdivision transfers	(25,731,528)	6,895,782	18,835,746		-
(Decrease) increase in net assets	(62,414,250)	7,104,439	110,896,303	-	55,586,492
Net assets					
Beginning of year	143,756,674	12,508,669	52,673,976	-	208,939,319
End of year	$ 81,342,424	$ 19,613,108	$ 163,570,279	$ -	$ 264,525,811

Schedule of Expenditures of Federal Awards

Cambridge Health Alliance
(A component unit of the city of Cambridge, Massachusetts)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Awards Entity	Pass-Through Entity Award Number	Federal Expenditures
Research and Development Cluster				
Direct Programs				
U.S. Department of Health and Human Services ("HHS")				
Mental Health Research Grants	93.242			$ 14,609
Mental Health Research Grants	93.242			151,778
Mental Health Research Grants	93.242			149,289
Mental Health Research Grants	93.242			216,574
Subtotal of 93.242				532,250
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243			7,847
Alcohol Research Programs	93.273			17,326
Alcohol Research Programs	93.273			20,846
Alcohol Research Programs	93.273			40,154
Subtotal of 93.273				78,326
Drug Abuse and Addiction Research Programs	93.279			85,518
ARRA - Trans-NIH Recovery Act Research Support	93.701			308,819
Total HHS Direct Research Programs				1,012,760
Pass-Through Programs				
U.S. Department of Health and Human Services ("HHS")				
Innovations in Applied Public Health Research	93.061	Harvard Pilgrim Health Care	no award number	23,614
Oral Diseases and Disorders	93.121	The Forsyth Institute	no award number	6,722
Geriatric Training Program for Physicians, Dentists and Behavioral/Mental health Professionals	93.156	Beth Israel Deaconess Medical Center	no award number	213,070
National Research Service Award in Primary Care Medicine	93.186	Beth Israel Deaconess Medical Center	no award number	44,912
Mental Health Research Grants	93.242	Emory University	5-41200-G1	194,474
Minority Health and Health Disparities Research	93.307	University of Puerto Rico	2011-000453	575,803
Minority Health and Health Disparities Research	93.307	University of Puerto Rico	2011-000453	13,295
Subtotal of 93.307				589,098
National Center for Research Resources	93.389	President and Fellows of Harvard College Harvard Medical School	027343 386541 03168	3,558
National Center for Research Resources	93.389	President and Fellows of Harvard College Harvard Medical School	027343.386541.03185	2,332
National Center for Research Resources	93.389	President and Fellows of Harvard College Harvard Medical School	149734.386546.0325	2,545
National Center for Research Resources	93.389	President and Fellows of Harvard College Harvard Medical School	149734.386546.0325	11,900
National Center for Research Resources	93.389	President and Fellows of Harvard College Harvard Medical School	149734.386546.0325	250,567
National Center for Research Resources	93.389	President and Fellows of Harvard College Harvard Medical School	02734338654103201	12,662
Subtotal of 93.389				283,564

The accompanying notes are an integral part of this schedule of federal awards.

Cambridge Health Alliance
(A component unit of the city of Cambridge, Massachusetts)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Awards Entity	Pass-Through Entity Award Number	Federal Expenditures
Pass-Through Programs				
U.S. Department of Health and Human Services ("HHS")				
ARRA - Trans-NIH Recovery Act Research Support	93.701	Children's Hospital Boston	88843	628
ARRA - Trans-NIH Recovery Act Research Support	93.701	Trustee of Boston University	3770-5	6,718
ARRA - Trans-NIH Recovery Act Research Support	93.701	University of Puerto Rico	2001-001005	383,857
ARRA - Trans-NIH Recovery Act Research Support	93.701	President and Fellows of Harvard College Harvard Medical School	14937.386556.0202	9,137
ARRA - Trans-NIH Recovery Act Research Support	93.701	Harvard Pilgrim Healthcare	AR001009	53,860
ARRA - Trans-NIH Recovery Act Research Support	93.701	President and Fellows of Harvard College Harvard Medical School	149729.386546.0282	9,199
ARRA - Trans-NIH Recovery Act Research Support	93.701	President and Fellows of Harvard College Harvard Medical School	149729.386546.0266	3,044
Subtotal of 93.701				466,443
Cardiovascular Diseases Research	93.837	University of Iowa	W000265177	14,785
Cardiovascular Diseases Research	93.837	Boston Medical Center Sub - NIH		76,572
Cardiovascular Diseases Research	93.837	Boston Medical Center	0318901	26,920
Cardiovascular Diseases Research	93.837	Tufts University		5,400
Subtotal of 93.837				123,677
Aging Research	93.866	Spaulding Rehabilitation Hospital	5R01AG032052.03	2,034
Total HHS Indirect Research Programs				1,947,608
Total Research and Development Cluster				2,960,368
Other Programs				
U.S. Department of Health and Human Services ("HHS")				
Direct Programs				
Projects of Regional and National Significance	93.243			275,401
Drug-free Communities Support Program Grants	93.276			149,977
HealthCare and Other Facilities	93.887			14,087
HealthCare and Other Facilities	93.887			2,822
Total 93.887				16,909
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918			567,243
Special Projects of National Significance	93.928			93,974
Total HHS Direct Non Research				1,103,504
Other Programs				
U.S. Department of Health and Human Services ("HHS")				
Indirect Programs				
Public Health and Social Services Emergency Fund	93.003	MA Department of Public Health	INTF5189MM3W20712036	105,000
Public Health Emergency Preparedness	93.069	MA Department of Public Health	INTF6208P01902414048	357
Public Health Emergency Preparedness	93.069	MA Department of Public Health	INTF6208P01902414048	39,625
Public Health Emergency Preparedness	93.069	MA Department of Public Health	INTF6208P01902414048	488,598
Public Health Emergency Preparedness	93.069	MA Department of Public Health	INFG6208P01RFR4590	26,707
Subtotal of 93.069				555,287

The accompanying notes are an integral part of this schedule of federal awards.

Cambridge Health Alliance
(A component unit of the city of Cambridge, Massachusetts)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Awards Entity	Pass-Through Entity Award Number	Federal Expenditures
Family Planning Services	93.217	Action for Boston Community Development, Inc.	68120	179,546
Consolidated Health Centers	93.224	Boston Healthcare For Homeless	CSH100901-02-1	134,659
Research on Healthcare Costs, Quality and Outcomes	93.226	HARVARD PILGRIM	1 RO1HS020628-01A1	39,591
System Redesign for Safety net Hospital and Delivery Systems	93	Trustee of Boston University	9500300423	1,083
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	City of Cambridge	CPC 2012-18	27,278
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	The Trauma Center at Justice Resource Institute, Inc.	1H79T203336	47,112
Subtotal of 93.243				74,390
Immunization Grants	93.268	MA Department of Public Health	INTF3502M03700915057	5,000
Drug Free Communities Support Program Grants	93.276	City of Somerville	no award number	2,440
Centers for Disease Control and Prevention-Investigations and Technical Asst	93.283	MA Department of Public Health	INTF3406MM3900817015	220,600
Centers for Disease Control and Prevention-Investigations and Technical Asst	93.283	Mount Sinai School of Medicine	0254-5544-4609	8,915
Subtotal of 93.283				229,515
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507	Boston University Medical Campus	1U58CD001323.01	52,102
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507	MA Department of Public Health	intf1100PP1107212161	12,317
Subtotal of 93.507				64,419
Coordinated Services and Access to Research For Women, Infants, Children and Youth	93.153	Dimock Community Health Center, Inc.	no award number	86,396
National Bioterrorism Hospital Preparedness Program	93.889	Mass League of Community Health Centers	no award number	20,000
National Bioterrorism Hospital Preparedness Program	93.889	Boston University Medical Campus	no award number	10,000
National Bioterrorism Hospital Preparedness Program	93.889	Boston University Medical Campus	7984-5	25,432
National Bioterrorism Hospital Preparedness Program	93.889	MA Department of Public Health	INTF6207PP12004215315	108,250
National Bioterrorism Hospital Preparedness Program	93.889	MA Department of Public Health	INTF6207PP1W02515168	866
Subtotal of 93.889				164,548
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	Rec. No. 2717	3,790
Capacity Building Assistance to Strengthen Public Health Infrastructure	93.524	American Public Health Association	3U38HM000459-04S2	1,511
Community Transformation Grants and National Dissemination	93.531	MA Department of Public Health	INTF4200PP1W20612048	45,000
Capacity Building Assistance to Strengthen Public Health Infrastructure	93.539	MA Department of Public Health	INTF4300M04805809037	10,000
Grants for Supportive Services and Senior Centers	93.044	Mystic Valley Elder Services	no award number	5,492
HIV Care Formula Grants	93.917	MA Department of Public Health	INTF4922MM3600214069	253,286
HIV Prevention Act - Health Department Based	93.940	MA Department of Public Health	INTF4942MM3100119006	176,000
Refugee and Entrant Assistance State Administered Programs	93.566	MA Department of Public Health	no award number	7,431
Block Grants for Prevention and Treatment of Substance Abuse	93.959	MA Department of Public Health	INTF2351MM3802114015	58,649
Maternal and Child Health Services Block Grant to the States	93.994	MA Department of Public Health	INTF7900MM3701516137	42,563
Total HHS Other Indirect				2,245,596
Total HHS - Indirect Programs				3,349,100

The accompanying notes are an integral part of this schedule of federal awards.

Cambridge Health Alliance
(A component unit of the city of Cambridge, Massachusetts)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Awards Entity	Pass-Through Entity Award Number	Federal Expenditures
CDBG - Entitlement Grants Cluster				
U.S. Department of Housing and Urban Development				
Indirect Programs				
Community Development Block Grant/Entitlement Grants	14.218	City of Malden	no award number	10,630
Community Development Block Grant/Entitlement Grants	14.218	City of Somerville	A97529	12,156
Total CDBG - Entitlement Grants Cluster				22,786
U.S. Department of Housing and Urban Development				
Indirect Programs				
Supportive Housing Program	14.235	City of Cambridge	MA0163B1T090802;SHP 2003-11	1,811
Lead Hazard Reduction Demonstration Grant Program	14.905	Malden Redevelopment Authority	no award number	5,000
Total U.S. Department of Housing and Urban Development				29,597
U.S. Department of Justice				
Indirect Programs				
Crime Victim Assistance	16.575	MA Office for Victim Assistance	SCVWA111104CAMB1	243,457
Total U.S. Department of Justice				243,457
U.S. Department of Agriculture				
Direct Programs				
Growing Healthy	10.225			39,459
Total U.S. Department of Agriculture Direct				39,459
Indirect Programs				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	MA Department of Public Health	INTF3502M03700915057	610,930
Fresh Fruit and Vegetable Program	10.582	Cambridge Public Schools	no award number	6,705
Total U.S. Department of Agriculture Indirect				617,635
Total U.S. Department of Agriculture				657,094
U.S. Department of Education				
Indirect Programs				
Adult Education Basic Grants to States	84.002	City of Cambridge	53101-23400-610902-HS10268	48,942
Fund for the Improvement of Education	84.215	City of Everett	Q215F070028-09	1,052
Total U.S. Department of Education				49,994
Corporation for National and Community Service				
Indirect Programs				
Social Innovation Fund	94.019	AIDS Action Committee	10SIHDC0011	35,428
Total Corporation for National and Community Service				35,428
Federal Cost Reimbursement Contracts				
N/A	xx.xxx	Food and Drug Administration	no award number	4,896
N/A	xx.xxx	Chemonics International	DOT-I-00-08-00033-00 SUB PAP016	42,771
Total Federal Cost Reimbursement Contracts				47,667
Total Federal Expenditures				$ 7,372,705

The accompanying notes are an integral part of this schedule of federal awards.

Cambridge Health Alliance
(A component unit of the city of Cambridge, Massachusetts)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the expenditures of Cambridge Health Alliance (the "Alliance") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, 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 of the Alliance. CFDA numbers and pass-through numbers are provided when available.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly by the Alliance with agencies and departments of the federal government and all subawards to the Alliance by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited to reimbursement.

3. Women, Infants and Children (CFDA Number 10.557)

In addition to the $610,930 presented in the schedule of expenditures of federal awards for the Special Supplemental Nutrition Program for the Women, Infants and Children grant, the Alliance determines participant eligibility for receipt of food vouchers. The food vouchers for which the Alliance determined eligibility amounted to $2,827,543 for the year ended June 30, 2012.

4. Subrecipient Awards

Certain federal funds are provided to subrecipient organizations by the Alliance. The following expenditures incurred by these subrecipients are reimbursed by the Alliance and included on the Schedule for the year ended June 30, 2012.

Cambridge Health Alliance
(A component unit of the city of Cambridge, Massachusetts)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Program or Cluster Title	Subrecipient	CFDA #	Amount
Research and Development Cluster			
U.S. Department of Health and Human Services/			
Health Research Grants	Harvard University	93.242	$ 51,467
	Subtotal of 93.242		51,467
U.S. Department of Health and Human Services/	El Futuro, Inc.	93.307	7,949
Minority Health and Health Disparities Research	Great Brook Valley Health	93.307	7,265
	University of Minnesota	93.307	9,546
	Beth Israel Deaconess Medical Center	93.307	3,315
	Research Foundation for Mental Hygiene	93.307	5,356
	Children's Hospital	93.307	8,004
	Carols Albizu University	93.307	7,358
	Subtotal of 93.307		48,793
U.S. Department of Health and Human Services/	Harvard University	93.701	214,952
Trans-NIH Recovery Act Research Support			
U.S. Department of Health and Human Services/			
Alcohol Research Programs	Tufts University	93.273	1,697
Total Research and Development Cluster			316,909
Other Programs			
U.S. Department of Health and Human Services/			
Substance Abuse and Mental Health Services			
	AIDS Action Committee	93.243	13,809
	Subtotal of 93.243		13,809
Total Other Programs			13,809
Total U.S. Department of Health and Human Services			$ 330,718

Part II
Reports on Internal Control and Compliance

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
Cambridge Health Alliance:

We have audited the financial statements of Cambridge Public Health Commission d/b/a Cambridge Health Alliance (the "Alliance"), a component unit of the City of Cambridge, Massachusetts as of and for the year ended June 30, 2012, and have issued our report thereon dated November 20, 2012. 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 Alliance'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 Alliance's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alliance'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*.

This report is intended solely for the information and use of the Alliance's Board of Trustees, audit committee, management, others within the entity, 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

November 20, 2012

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 Trustees of
Cambridge Health Alliance:

Compliance

We have audited the compliance of Cambridge Public Health Commission d/b/a Cambridge Health Alliance ("the Alliance"), a component unit of the City of Cambridge, Massachusetts with the types of compliance requirements described in the 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, 2012. The Alliance'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 the Alliance's management. Our responsibility is to express an opinion on the Alliance's compliance based on our audit.

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 Alliance'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 Alliance's compliance with those requirements.

In our opinion, the Alliance 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, 2012. 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 questions costs as items 2012-1 and 2012-2.

Internal Control Over Compliance

Management of the Alliance 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 Alliance'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 Alliance'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.

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

This report is intended solely for the information and use of management the Alliance's Board of Trustees, the audit committee, others within the entity, 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

February 12, 2013

Part III
Audit Findings

Cambridge Health Alliance
(A component unit of the city of Cambridge, Massachusetts)
Schedule of Federal Award Findings and Questioned Costs
Year Ended June 30, 2012

I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal Control over Financial Reporting:		
Material weakness identified?	___ Yes	_√_ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes	_√_ None Reported
Noncompliance which is material to financial statements.	___ Yes	_√_ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___ Yes	_√_ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___Yes	_√_ None Reported
Type of auditors report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in compliance with Section 510(a) of OMB Circular A-133?	_√_ Yes	___ No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.217	Family Planning Services
93.889	National Bioterrorism Hospital Preparedness Program

Dollar threshold for Type A and Type B programs:	$306,007	
Audit qualifies as low-risk auditee?	_√_ Yes	__ No

II. Financial Statement Findings

None noted.

Finding 2012-1: Equipment and Real Property Management

Federal Agency /Program/CFDA #/ Pass-through	Award #:	Award Year:	Related to a Major Program
HRSA /93.887	3C76HF11026AO	9/1/08-8/31/11	No

Criteria
Circular A-110, Subpart C. 34.f.1, states that equipment acquired with Federal funds and Federally owned equipment shall be maintained accurately and shall include a description of the equipment, manufacturer's serial number, model number, other identification number, source of the equipment (including the award number), whether title vests in the recipient or the Federal Government, acquisition date and cost, location and condition of the equipment and the date the information was reported and unit acquisition cost. Further, a physical inventory of all Federal equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the differences. The recipient shall, in connection with the inventory, verify the existence, current utilization and continued need for the equipment.

Condition
There were 510 fixed assets, totaling $1,542,794, purchased with Federal funds related to open awards as of June 30, 2012. Through our testing we sampled 25 of these which had a total value of $93,287. Through our testing, we noted that one fixed asset, an ureteroscope purchased with Federal funds for $6,865, was not marked with the standard Cambridge Health Alliance federally funded asset tag.

Questioned Costs
None noted.

Cause
In the prior year, the Alliance created new policies regarding the accounting for fixed assets which specifically addressed requirements that apply to the safeguarding and record maintenance of federally funded equipment. The Policy has been adhered to for equipment purchased with Federal funds during fiscal 2012. During 2012 Management also completed the process of retrospectively applying the Policy, including tagging and performing a physical inventory, for equipment purchased in prior years with Federal funds. In this instance, documentation in the form of a CHA federally funded asset tag was not found on the equipment.

Effect
The individual asset selected was inventoried on August 26, 2011 and again on August 6, 2012 as required by Federal guidelines. The asset tag was no longer affixed to asset at audit inspection date on September 20, 2012.

Recommendation
The Alliance should continue to implement the new policy established for equipment purchased with Federal funds, including ensuring adequate documentation is maintained.

Management's Views and Corrective Action Plan
Please refer to page 57, Management's Views and Corrective Action Plan.

Finding 2012-2: Time and Effort Reporting

Federal Agency /Program/CFDA #/ Pass-through	Award #:	Award Year:	Related to a Major Program
Various Research and Development and Other Programs	Various	Various	Yes

Criteria
Circular A-122, Subpart b. 8.m.1, states that charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. Based on paragraph 8.m.2, distribution of time for each employee working on a federal grant must be maintained. These reports, "must be signed by the individual employee, or by a responsible official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports" and according to this paragraph, these "reports must be prepared at least monthly and must coincide with one or more pay periods".

Condition
Through our testing, we noted that for thirty-eight out of sixty five payroll selections, review of the time and effort report by the supervisor was greater than 60 days after completion by the employee and the payroll period to which the report was applicable. Further, we noted that although CHA's current organizational policy requires review of time and effort by a supervisor, it does not specify that the review must be timely or define what constitutes a timely review.

Questioned Costs
None noted.

Cause
Despite CHA having policies and procedures in place for effort reporting, the policy does not specify that a review must be performed timely or define what constitutes a timely review.

Effect
CHA may not recognize potential changes needed to payroll expenses charged to federal awards in a timely manner.

Recommendation
The Alliance should revise its current time and effort reporting policy to establish a requirement for timely review of time and effort reports by supervisors. We recommend CHA define within this policy what constitutes timely. We further recommend that CHA emphasizes the importance of timely effort certification to all supervisory employees responsible for the review of monthly effort certifications and ensure all approvals are completed on a timely basis.

Management's Views and Corrective Action Plan
Please refer to page 57, Management's Views and Corrective Action Plan.

2011-01: Equipment and Real Property Management
Circular A-110, Subpart C. 34.f.1, states that equipment acquired with Federal funds and Federally owned equipment shall be maintained accurately and shall include a description of the equipment, manufacturer's serial number, model number, other identification number, source of the equipment (including the award number), whether title vests in the recipient or the Federal Government, acquisition date and cost, location and condition of the equipment and the date the information was reported and unit acquisition cost. Further, a physical inventory of all Federal equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the differences. The recipient shall, in connection with the inventory, verify the existence, current utilization and continued need for the equipment.

PwC noted through their fiscal 2011 audit that certain fixed assets purchased with Federal funds in prior years were not inventoried in accordance with applicable requirements as listed above as was reported in the prior year finding. Total fixed assets purchased with Federal funds related to open awards during fiscal 2011 was $461,751, of which $364,195 was purchased in prior years and $97,555 was purchased in fiscal 2011. All fixed assets purchased during fiscal 2011 were inventoried. Items purchased in prior years amounting to $167,552 were not subject to a physical inventory within the last two years.

Status
We developed and implemented a policy to address Finding 2011-1: Equipment and Real Property Management. Grant Accounting has a complete inventory listing of all federally funded equipment purchased. Inventory purchased in FY 2012 and prior has been inventoried and tagged in accordance with A110. CHA will continue to perform a full inventory observation at least once every two years.

2011-2: Allowable costs/cost principles - Cost Transfers
PwC noted that CHA does not currently have an organization wide cost transfer policy in place. The Sponsored Research Department has a departmental policy which does not apply to all CHA departments, and does not address the CHA procedures currently in place for processing cost transfers.

During their testing of allowable cost and cost principles, PwC further noted adequate supporting documentation for cost transfers was not maintained centrally and did not appear to be readily available in accordance with paragraph 21 of A110. Additionally, adequate supporting documentation for the approval of four cost transfers selected for testing was not able to be obtained.

Status
CHA developed and implemented a policy to address Finding 2011-2: Allowable costs/cost principles – Cost Transfers. The policy was implemented on March 1, 2012 and requires that all cost transfers recorded be supported with appropriate documentation and reviewed.

Cambridge Health Alliance

HARVARD MEDICAL SCHOOL TEACHING AFFILIATE

Management's Views and Corrective Action Plan

Finding 2012-1: Equipment and Real Property Management

The fixed asset noted is a ureteroscope. The holding case of this fixed asset was tagged during FY 2012. However, during FY 2012 the sticker fell off. A new sticker has been placed on the cart where the ureteroscope is located. Grant Management has discussed the policy for maintaining and tracking equipment acquired with federal funds with the Network Inventory Manager at Whidden Hospital to ensure the equipment is maintained accordingly going forward.

Finding 2012-2: Time and Effort Reporting

The Office of Sponsored Research will revise the time and effort reporting policy. The revisions will require the Office of Sponsored Research and the Principal Investigators to have time and effort certifications completed and signed by the eighth business week following each payroll month. The Office of Sponsored Research will initiate a tracking system for follow up on missing forms and communicate with appropriate supervisors about the updated policy.

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