

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, 2014

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(A Component Unit of the City of Cambridge, Massachusetts)
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Part I
Financial Statements and
Schedule of Expenditures of Federal Awards



Independent Auditor's Report

To the Board of Trustees of Cambridge Health Alliance

Report on the Financial Statements

We have audited the accompanying statements of net assets and the related statements of revenue, expenses and changes in net assets and cash flows of the Cambridge Health Commission d/b/a Cambridge Health Alliance (the "Alliance") as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alliance's basic financial statements. The consolidating information on pages 35 through 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information



directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information on pages 35 to 38 is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Required Supplementary Information

The accompanying management discussion and analysis on pages 3 through 14 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

December 5, 2014

Cambridge Health Alliance

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Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013

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, 2014. 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.

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 Cambridge Health Alliance Foundation. 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.

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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.

Promote Population Health

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 fiscal year 2014, staff administered 1,372 flu vaccines and 23 pneumonia shots at sites throughout the city; followed up on 157 communicable disease reports; and handled 2,194 TB patient visits to the Cambridge Hospital's Schipellite Chest Center and made 315 related home visits to Cambridge residents with active or latent tuberculosis (TB). In addition, staff provided 2,778 dental screenings to elementary school children, and provided school health services in the Cambridge public schools (with nurses handling 37,520 student visits for illness or injury) and oversight and clinical guidance to three nonpublic schools, private day care centers, and city-managed preschools and camps.

As part of an effort to become one of the first nationally accredited health departments in Massachusetts, the Department completed a comprehensive community health assessment. Based on assessment findings and broad community input, seven health priority areas were identified for the city: mental and behavioral health; housing affordability; healthy eating and active living; violence; substance abuse (including tobacco); access to health care; and equity and social justice. The seven priority areas are the focus of a forthcoming five-year community health improvement plan for Cambridge.

The Department of Community Affairs has the goal of improving the health of our community by providing a broad array of community health initiatives targeting populations at risk for health care disparities. These populations include individuals who are low-income, immigrants, of cultural or linguistic minorities, or otherwise at risk because of homelessness or mental illness. The Department of Community Affairs works to inform these individuals of available services, reduces barriers to accessing care, creates links to appropriate health care services and provides culturally appropriate, accessible, and engaging education about preventive care and healthy lifestyles.

The Department of Community Affairs also works with various community groups, nonprofit agencies, and public health departments to improve health care access. Activities include promoting healthy behaviors, setting up primary care appointments, helping people apply for health coverage, and identifying important community health issues. The Department operates 12 grant funded programs that address 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.

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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 toward reducing disparities in service utilization and health outcomes among the populations served by the Alliance. The Zero Disparities Committee has an initiative to continually improve the quality of the race, ethnicity, and language data collected by the Alliance, and has developed tools for measuring and monitoring specific health disparities in CHA primary care patients. The next step is to integrate that into the CHA Quality Management Dashboard.

The Institute for Community Health (ICH) was founded in 2000 by the Cambridge Health Alliance, and two other health care systems as a collaborative effort to improve the health of Cambridge, Somerville, and surrounding cities and towns. The mission of ICH is to stimulate the creation of innovative programs and health policies that will promote long-term healthy lifestyles through a community-based approach to evaluation and capacity building. The cornerstone of this mission is an exceptional commitment to community engagement and participation in all aspects of the evaluation process. ICH works with its partners to disseminate community-specific and cross-community evaluation findings to guide local, regional, and national program and policy development.

ICH works with community and academic partners on grant funded programs that focus on child mental health, health disparities, substance abuse prevention, HIV/AIDS, public health infrastructure, primary care research, Asian health, men's health, hospital needs assessment, and chronic disease.

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 losses of \$17.7 million and \$18.6 million for fiscal years 2014 and 2013 respectively.

The Provider Network reported a \$19.3 million loss in fiscal year 2014 compared to \$20 million loss in fiscal year 2013.

The Alliance continues to move forward toward becoming an Accountable Care Organization (ACO) and to leverage its ACO role in its relationships with payers and clinical partners to improve clinical outcomes and financial performance.

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The Alliance has the ability to earn \$67 million from Delivery System Transformation Initiatives (DSTI). DSTI is a provision within the Massachusetts Medicaid Waiver for state fiscal years 2012 through 2014, and has been proposed for continuation in Massachusetts Medicaid Waiver for state fiscal years 2015 through 2019. 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

The Alliance has successfully met 100% of the required metrics through 2014.

In addition, the Alliance completed the system wide implementation of electronic medical records during fiscal year 2014. The Alliance received \$3.4 million of federal funds in 2014 for meeting the electronic medical record meaningful use requirement, and expects to earn \$3.0 million in 2015. 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.

During fiscal year 2015, the Alliance is implementing a plan to expand primary care services in several under-served communities within its service area. This expansion will improve access to care and will contribute to CHA's strategic goal of achieving significantly improved financial performance. in fiscal year 2016 and beyond.

CHA entered into a clinical affiliation with Beth Israel Deaconess Medical Center (BIDMC) in April 2013. In fiscal year 2014 CHA began participating in the Beth Israel Deaconess Care Organization (BIDCO). This participation will allow CHA physicians and hospitals to join with other physician groups and hospitals in one overall structure to share risk and to invest in the infrastructure necessary to manage populations of patients and coordinate their care under global risk contracts, such as the Medicare Pioneer ACO.

CHA actively collaborated with BIDMC physicians and practices to share information, develop bi-directional referral relationships, and cross-promote services to patients. This included work between CHA and BIDMC specialty departments, the BID-Chelsea practice, and the BIDMC Extended Community Care Program, which serves older adults in Skilled Nursing Facilities across the Metro-Boston region.

Leadership and Workforce

The Alliance recognizes that the development of leadership and workforce is key to a successful organization. CHA employs just under 3,000 individuals from diverse backgrounds, including approximately 700 nursing staff. There are also nearly 450 active medical staff.

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Leadership development initiatives during fiscal year 2014 focused on support for improving two key CHA Performance Pillars: Patient Experience and Financial Sustainability. The human resources team led a robust initiative to implement a management practice of identifying high, middle, and low performance and then following up appropriately. This is a best practice developed by The Studer Group and used by health systems nationwide to improve the patient experience. Additional leadership development initiatives included the Supervisor Development Program, an expanded Management Orientation curriculum, focused education on performance management, and education to support continuous accreditation readiness.

The CHA human resources team has revised processes and programs that are part of the new employee on-boarding as part of its efforts to be partners with managers and staff throughout the employment lifecycle.

Workforce development initiatives in fiscal year 2014 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 supporting an RN/BSN program for nurses with diplomas to earn Bachelor's degrees. Other work with community partners included expanding the pipeline of health care workers, and developing curricula on teamwork and patient engagement for multidisciplinary staff at patient centered medical home (PCMH) sites.

CHA also provides tuition reimbursement to its staff to support job-related personal and professional development. In fiscal year 2014, the Alliance implemented an online tuition reimbursement system which allows managers to maintain better oversight of staff absences for educational purposes, and maintains more automated documentation.

Growth and Investment

The Alliance is expanding in the Malden, Everett and Revere communities to meet the demand for primary care services in these communities. Construction began at the Malden, Everett and Revere Family Health centers in fiscal year 2014. This capital investment is projected to be \$4.5 million, and is expected to allow the addition of 29,000 new patients at these three sites by fiscal year 2019.

The installation of a new Nurse Call System is in progress and will help the Alliance transition to using wireless capabilities, allowing for improved response time and improved patient experience.

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 and by its clinical partners. The availability of electronic health records to physicians throughout the Alliance is allowing the Alliance to move forward with the ACO-PCMH model of care. CHA and BIDMC physicians have reciprocal access to medical records when their patients treated at each other's facilities. This linkage allows CHA and BIDMC to share data electronically in a secure manner to provide coordinated patient care. CHA and BIDMC primary care physicians are also notified electronically when their patients are seen in the emergency room at BIDMC or any CHA hospital campus. This allows patient care teams to access the most current patient information and support patient health in the hospital and the community.

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The Alliance continues to stay current on Radiology technology. In fiscal year 2014, the Alliance began construction of an updated Interventional Radiology (IR) room at Cambridge Hospital to accommodate new IR equipment. This will allow CHA to increase complexity of procedures offered, retain and grow interventional procedure business, move Vascular Surgery procedures from the Operating Room to the more appropriate setting of an Interventional Radiology suite, and free up space in the Operating Room for surgical cases. The Alliance also began upgrading software and hardware for PACS (Picture Archiving Communication System) in fiscal year 2014, and is working to upgrade the MRI at Cambridge in fiscal year 2015.

Financial Highlights

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|----------------|----------------|----------------|----------------|----------------|
| Patient service revenues | \$ 224,882,573 | \$ 230,455,007 | \$ 282,231,793 | \$ 279,570,017 | \$ 290,982,152 |
| Premium revenue | 740,874,652 | 895,005,870 | - | - | - |
| Federal and state support | 168,144,064 | 152,500,000 | 153,682,347 | 164,997,620 | 154,999,999 |
| Operating revenue from discontinued operations - Network Health | - | - | 292,722,712 | 83,452,602 | - |
| Medical expense | 648,787,645 | 723,239,244 | - | - | - |
| Operating expenses from discontinued operations - Network Health | - | - | 256,252,125 | - | - |
| Operating expenses | 1,191,210,531 | 1,282,810,713 | 791,620,172 | 553,380,399 | 555,838,333 |
| Excess (deficiency) of revenues over expenses | 2,029,707 | 55,384,292 | 44,135,993 | (18,638,181) | (17,685,921) |
| Operating cash flows | (74,160,185) | 147,285,454 | 9,663,674 | 22,785,745 | (10,054,569) |
| Patient days | 64,212 | 63,684 | 62,027 | 61,630 | 60,655 |
| Discharges | 12,514 | 12,751 | 13,345 | 12,962 | 12,115 |
| Average length of stay (days) | 5 | 5 | 5 | 5 | 5 |
| Number of licensed beds | 494 | 494 | 494 | 494 | 494 |
| Outpatient clinic visits | 641,098 | 628,491 | 664,875 | 651,173 | 651,437 |
| Managed care members | 164,120 | 173,692 | - | - | - |
| Cash and cash equivalents | \$ 168,774,287 | \$ 302,189,836 | \$ 253,347,971 | \$ 271,324,181 | \$ 252,234,682 |
| Total assets | 519,468,817 | 580,633,800 | 528,189,379 | 513,991,687 | 483,645,780 |
| Working capital | 69,281,473 | 138,737,888 | 172,906,584 | 185,628,110 | 204,462,613 |
| Short-term debt and current portion of capital lease obligations | 7,569,043 | 6,303,298 | 5,760,409 | 4,741,274 | 3,090,249 |
| Long-term debt and noncurrent portion of capital lease obligations | 30,995,080 | 27,721,708 | 17,906,628 | 8,705,367 | 7,085,724 |
| Net assets | 208,939,319 | 264,525,811 | 308,886,261 | 290,198,326 | 305,841,148 |
| Capital spending | \$ 9,914,375 | \$ 21,745,162 | \$ 22,466,555 | \$ 15,962,919 | \$ 12,798,123 |
| Current ratio | 1.31 | 1.61 | 2.24 | 2.28 | 2.86 |
| Debt to equity | 16 % | 11 % | 7 % | 4 % | 3 % |

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, 2014, 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.

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Capital Assets and Debt Administration

At June 30, 2014, the Alliance had capital assets, net of accumulated depreciation, of \$147.9 million compared to \$164.7 million at June 30, 2013, as shown in the table below (in thousands):

| | 2014 | 2013 |
|--------------------------------|-------------------|-------------------|
| Land and improvements | \$ 9,482 | \$ 9,321 |
| Buildings and improvements | 223,880 | 221,825 |
| Equipment | 236,904 | 234,720 |
| Construction in progress | 2,053 | 1,687 |
| Capital leases | 8,594 | 7,451 |
| Less: Accumulated depreciation | (332,979) | (310,314) |
| Total | <u>\$ 147,934</u> | <u>\$ 164,690</u> |

The Alliance Board of Trustees (the “Board”) initially approved a capital budget for fiscal year 2014 of \$7.0 million including \$2.0 million for the EPIC Electronic Medical Record System. The Board later approved an additional \$2.1 million for an Interventional Radiology Room with new equipment and \$4.6 million for the expansion of primary care centers in Malden, Everett, and Revere.

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 \$3.4 million in fiscal year 2014. The implementation of EPIC Inpatient systems was completed in fiscal year 2014. The Alliance also successfully implemented medication bar-coding technology in fiscal year 2014 in order to meet the requirements of the meaningful use of the electronic medical record system.

The Board approved a capital budget for fiscal year 2015 of \$20.1 million.

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, and financing for the purchase of 237 Hampshire Street. Below is a schedule of the Alliance’s debt as of June 30, 2014 (in thousands):

| | |
|---|------------------|
| General obligation bonds payable to the City of Cambridge | \$ 5,995 |
| Capital leases – property | 842 |
| Capital leases – medical equipment | 1,974 |
| 237 Hampshire Street. note payable | 562 |
| Interest-free loan | 802 |
| | <u>\$ 10,175</u> |

At June 30, 2014, the current portion of long-term debt is approximately \$3.1 million.

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Financial Statement Summary

Summary of Net Assets (In thousands) –

| | 2014 | 2013 | Percent Change |
|--|-------------------|-------------------|-------------------|
| Current assets | \$ 314,631 | \$ 330,238 | (5)% |
| Capital assets | 147,934 | 164,690 | (10)% |
| Other noncurrent assets | 21,081 | 19,064 | 11 % |
| Total assets | <u>483,646</u> | <u>513,992</u> | <u>(6)%</u> |
| Due to third parties | 54,520 | 54,744 | (0)% |
| Postemployment benefits | 46,612 | 42,354 | 10 % |
| Bonds payable | 5,995 | 7,495 | (20)% |
| Capital leases | 3,619 | 5,331 | (32)% |
| Other liabilities | 67,059 | 113,869 | (41)% |
| Total liabilities | <u>177,805</u> | <u>223,793</u> | <u>(21)%</u> |
| Net assets | | | |
| Unrestricted | 163,722 | 134,672 | 22 % |
| Invested in capital assets – net of related debt | 137,758 | 151,243 | (9)% |
| Restricted | 4,361 | 4,283 | 2 % |
| Total net assets | <u>\$ 305,841</u> | <u>\$ 290,198</u> | <u>5 %</u> |

Assets

Current Assets –

Liquidity –

At June 30, 2014, cash and cash equivalents decreased \$19 million or 7% from June 30, 2013. CHA reported cash used in operations of \$10 million, purchased capital assets of \$10.8 million, released the remaining \$7.5 million of restricted cash that had been held in escrow following the sale of NHI, Inc., paid principal and interest on debt of \$4.9 million, and received \$6.5 million in tax support from the City. The liquidity ratio of unrestricted liquid assets to debt service as of June 30, 2014 is 25.8 to 1, compared to 20.2 to 1 at June 30, 2013. Although cash decreased, the liquidity ratio increased because the Alliance has less debt outstanding as of June 30, 2014.

Net accounts receivable has remained at \$33.3 million at June 30, 2014 and June 30, 2013 with the largest receivables due from Medicaid and Health Safety Net.

CHA has \$13.8 million receivable due from the Commonwealth of Massachusetts of \$13 million and Commonwealth Care Alliance of \$0.8 million at June 30, 2014.

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Prepaid expenses increased from \$5.1 million at June 30, 2013 to \$5.4 million at June 30, 2014. Other current assets increased from \$6.7 million at June 30, 2013 to \$7.8 million at June 30, 2014. The increase in other current assets is due to increase in receivables from the state for incentive payment for meeting the Meaningful Use of the electronic health records, and for revenue related to the Medicaid Outreach Program.

Noncurrent assets –

Assets whose use is limited increased from \$15.6 million at June 30, 2013 to \$17.4 million at June 30, 2014. The increase is mainly attributable to a \$10.6 million increase in funded depreciation, offset by a decrease in the remaining \$7.5 million of restricted funds that was held in escrow related to the sale of NHI.

Current Liabilities –

Accounts payable and accrued expenses increased \$1.1 million or 4% from June 30, 2013 to June 30, 2014.

Accrued salaries and compensated absences decreased \$6.3 million or 14.5% in fiscal year 2014 to \$37.3 million. The decrease is related to the timing of the regularly scheduled pay dates, and payment in fiscal year 2014 of severance benefits that were accrued as of June 30, 2013 as part of the organizations Voluntary Resignation Program.

Current settlements due to third-party payors increased from \$20.8 million at June 30, 2013 to \$35.2 million at June 30, 2014 mainly due to Medicare liabilities moving from long-term to current settlements due.

Current capital lease obligations decreased from \$3.2 million at June 30, 2013 to \$1.5 million at June 30, 2014. CHA made principal payments of \$2.8 million based on the amortization schedules.

Deferred revenue decreased \$41.6 million in fiscal year 2014 primarily related to board recognition of a capital contribution.

Other Liabilities –

Long-term settlements due to third-party payors decreased from \$34.0 million at June 30, 2013 to \$19.3 million at June 30, 2014. Medicare liabilities related to fiscal year 2009 and 2010 were settled, and all other years with the exception of fiscal year 2014 moved to current settlements. The Alliance made settlement payments to Network Health in fiscal year 2014 of \$5.3 million related to risk share agreements for fiscal years 2012 and 2013.

The Alliance recorded an accrual for post employment benefits in the amount of \$4.2 million in fiscal year 2014 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 slightly from June 30, 2013 to June 30, 2014. The capital lease for the building at Station Landing was amended to extend the lease for space on the second floor of the building while all other remaining obligations on this lease were fully amortized. This amendment increased the liability by \$712 thousand. The Alliance also entered into 5 year capital leases for lab analyzers, and a 5 year interest free loan with Sodexo for Somerville Café improvements. Offsetting the increases were principal payments made per established amortization schedules on existing capital leases.

Cambridge Health Alliance

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

Required Supplementary Information

Management's Discussion and Analysis

Summary Statements of Revenue, Expenses, and Changes in Net Assets

Years Ended June 30, 2014 and 2013

| <i>(in thousands)</i> | 2014 | 2013 | Percent Change |
|---|-------------------|-------------------|-------------------|
| Operating revenue | | | |
| Net patient service revenue | \$ 290,982 | \$ 279,570 | 4 % |
| Federal and state support | 155,000 | 187,497 | (17)% |
| Other operating revenue | 84,358 | 60,953 | 38 % |
| Total operating revenue | <u>530,340</u> | <u>528,020</u> | <u>0 %</u> |
| Operating expenses | | | |
| Salary and benefits | 375,713 | 378,566 | (1)% |
| Supplies | 46,840 | 45,472 | 3 % |
| Service | 99,644 | 95,359 | 4 % |
| Travel and training | 2,655 | 2,667 | (0)% |
| UCP uniform expense | 1,503 | 866 | 74 % |
| Depreciation and amortization | 29,425 | 30,353 | (3)% |
| Other expense | 58 | 97 | (40)% |
| Total operating expenses | <u>555,838</u> | <u>553,380</u> | <u>0 %</u> |
| (Loss) from operations | <u>(25,498)</u> | <u>(25,360)</u> | <u>1 %</u> |
| Nonoperating revenue (expenses) | | | |
| Interest income | 1,049 | 1,104 | (5)% |
| Interest expense | (433) | (827) | (48)% |
| Tax support | 6,500 | 6,500 | 0 % |
| Gain/(Loss) on disposal of fixed assets | 697 | (55) | (1367)% |
| Total nonoperating revenue – net | <u>7,813</u> | <u>6,722</u> | <u>16 %</u> |
| (Deficiency) of revenue over expenses | <u>(17,685)</u> | <u>(18,638)</u> | <u>(5)%</u> |
| Capital Contributions | 33,250 | - | |
| Other restricted donations | 79 | (50) | (258)% |
| Increase (decrease) in net assets | <u>15,644</u> | <u>(18,688)</u> | <u>(184)%</u> |
| Net assets | | | |
| Beginning of year | <u>290,198</u> | <u>308,886</u> | <u>(6)%</u> |
| End of year | <u>\$ 305,842</u> | <u>\$ 290,198</u> | <u>5 %</u> |

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, 2013

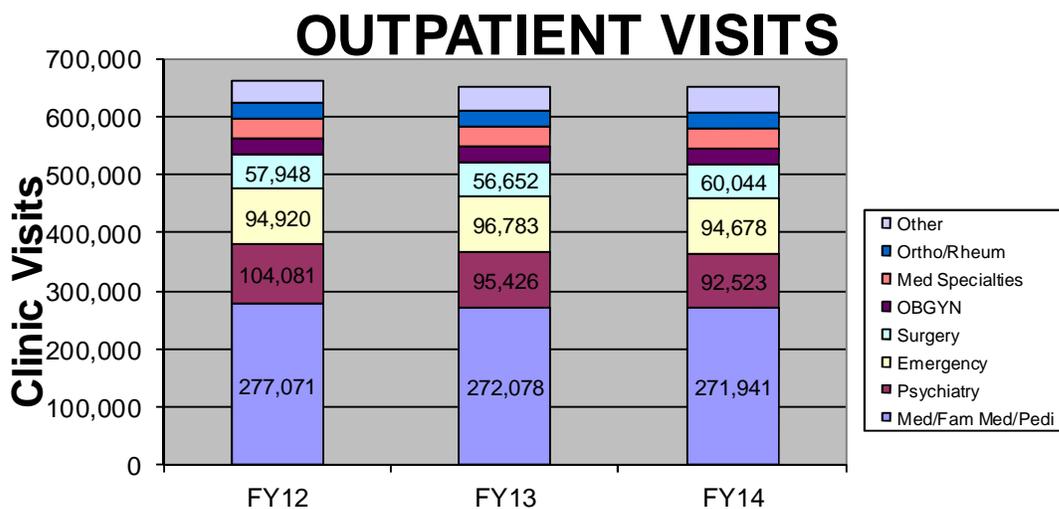
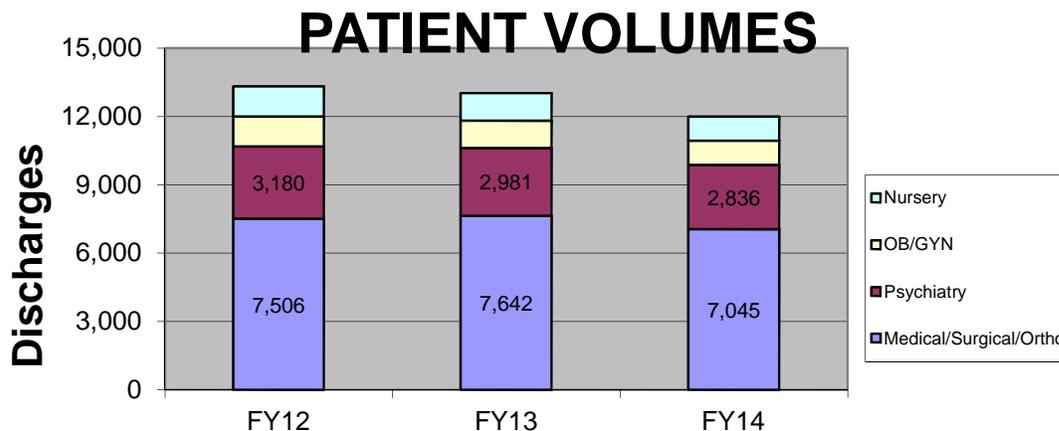
Patient Volumes

The Alliance's patient days decreased about 975 or 2% in fiscal year 2014. The average length of stay continues to be 5 days.

Discharges decreased about 850 or 7% in fiscal year 2014.

Clinic visits increased slightly to 651,400 in fiscal year 2014.

The graphs below show actual volumes for fiscal year 2012, fiscal year 2013 and fiscal year 2014:



The organization reports a loss from operations of \$25.5 million in fiscal year 2014 compared to a loss from operations of \$25.4 million in fiscal year 2013.

Cambridge Health Alliance

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

Required Supplementary Information

Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013

Operating Revenue –

The Provider Network produces all of the organizations operating revenue. Operating revenue increased \$2.3 million from fiscal year 2013 to fiscal year 2014.

Net patient service revenue increased \$11.4 million, and Other Revenue increased \$0.9 million, while Federal and State Support decreased \$10 million. The increase in net patient service revenue is attributable to a \$6.3M increase in NPSR related to the increase in prior year settlements taken in during FY 2014. Federal and State support includes supplemental and safety net revenue of \$105 million and Health Safety Net revenue of \$50 million compared to \$113.5 million and \$51 million in fiscal year 2013. DSTI funds of \$22.3M and \$22.5M in fiscal years 2014 and 2013 respectively were recorded as other operating revenue.

Operating Expenses –

Operating expenses increased \$2.5 million in fiscal year 2014.

Increases in Service expense of \$4.3 million, and Supplies expense of \$1.4 million, were offset by decreases in Salary and benefit expense of \$2.9 million.

Results From Operations –

The Alliance reported a net loss of \$17.7 million for fiscal year 2014 compared with an \$18.6 million net loss in fiscal year 2013, a change of \$0.9 million.

The Provider Network reported a net loss of \$19.3 million for fiscal year 2014 compared to a net loss of \$20.0 million for fiscal year 2013.

Outlook to the Future

During fiscal year 2014 and in consultation with an outside business advisory firm, the Alliance developed detailed plans to improve financial sustainability through increased staff and provider productivity, reduced non-salary expenses, and improved revenue cycle operations. As mentioned previously, we are in the process of expanding access to primary care services in Malden, Everett, and Revere. Additionally, the Alliance is working to increase access to mental health and substance abuse services. These plans were incorporated in the operating budget for fiscal year 2015 and, when fully implemented, will move us substantially toward our goal of achieving a break-even budget in fiscal year 2016 and ongoing financial stability thereafter.

Cambridge Health Alliance continues to be committed to caring for and improving the health of vulnerable populations in the communities we serve. Recent and ongoing changes in healthcare insurance (both commercial and governmental) and provider markets have affected the nature of services required and the financing mechanisms available to support them. CHA is in the process of developing a five year strategic plan to ensure we are operating with the right programs and services in place to serve the changing needs of our communities. The plan will affirm CHA's vision, identify how CHA can best address the needs of its patients and communities, further its academic mission, and provide a realistic economic blueprint to ensure long-term sustainability. The strategic plan will create the basis for CHA to operate with the patient at the center and will be reflective of its commitment to evolving as an ACO and addressing both population and panel health needs.

CHA leadership is confident the combination of the expertise and commitment of our providers and staff, the opportunities associated with our clinical affiliations, and the investments and innovations we continue to develop will allow CHA to maintain its role as an indispensable resource to and member of the communities we serve.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Statements of Net Assets
June 30, 2014 and 2013

| | 2014 | 2013 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 252,234,682 | \$ 271,324,181 |
| Patient accounts receivable - less allowance for doubtful accounts of \$58,817,000 and \$55,154,000 in 2014 and 2013, respectively | 33,308,375 | 33,250,805 |
| Inventories | 2,131,070 | 1,891,470 |
| Prepaid expenses | 5,359,750 | 5,095,468 |
| Due from third parties - current | 13,754,958 | 12,000,000 |
| Other current assets | 7,841,755 | 6,676,094 |
| Total current assets | <u>314,630,590</u> | <u>330,238,018</u> |
| Assets whose use is limited or restricted | | |
| Internally restricted by Board for funded depreciation | 10,683,837 | 51,061 |
| Held for loan collateral | 3,125,000 | 3,875,000 |
| Held for malpractice claims | 3,468,000 | 4,019,000 |
| Held for trustee for insolvency fund | 100,000 | 100,000 |
| Held pending final requirements of NHI sale | - | 7,529,083 |
| Total assets whose use is limited or restricted | <u>17,376,837</u> | <u>15,574,144</u> |
| Capital assets - net | 147,934,047 | 164,689,545 |
| Other assets | 3,704,306 | 3,489,980 |
| Total assets | <u>\$ 483,645,780</u> | <u>\$ 513,991,687</u> |
| Liabilities and net assets | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 27,037,671 | \$ 25,945,223 |
| Accrued salaries and compensated absences | 37,305,050 | 43,573,320 |
| Due to third parties - current | 35,234,711 | 20,758,282 |
| Bonds payable - current | 1,500,000 | 1,500,000 |
| Note payable - current | 60,501 | 57,843 |
| Capital lease obligations - current | 1,529,748 | 3,183,431 |
| Deferred revenue | 2,154,098 | 43,730,489 |
| Postemployment benefits - current | 5,346,198 | 5,861,320 |
| Total current liabilities | 110,167,977 | 144,609,908 |
| Due to third parties - noncurrent | 19,284,792 | 33,985,909 |
| Post employment benefits - noncurrent | 41,266,139 | 36,492,177 |
| Bonds payable - noncurrent | 4,495,000 | 5,995,000 |
| Note payable - noncurrent | 501,856 | 562,357 |
| Capital lease obligations - noncurrent | 2,088,868 | 2,148,010 |
| Total liabilities | <u>177,804,632</u> | <u>223,793,361</u> |
| Net assets | | |
| Unrestricted | 163,721,539 | 134,672,813 |
| Invested in capital assets - net of related debt | 137,758,074 | 151,242,905 |
| Restricted | 4,361,535 | 4,282,608 |
| Total net assets | <u>305,841,148</u> | <u>290,198,326</u> |
| | <u>\$ 483,645,780</u> | <u>\$ 513,991,687</u> |

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, 2014 and 2013

| | 2014 | 2013 |
|--|-----------------------|-----------------------|
| Operating revenue | | |
| Net patient service revenue (net of provision for bad debts of \$32,957,000 and \$29,627,000 in 2014 and 2013, respectively) | \$ 290,982,152 | \$ 279,570,017 |
| Federal and state support | 154,999,999 | 164,996,620 |
| Other operating revenue | 84,357,854 | 83,452,602 |
| Total operating revenue | <u>530,340,005</u> | <u>528,019,239</u> |
| Operating expenses | | |
| Salary and benefits | 375,713,458 | 378,565,845 |
| Supplies | 46,839,520 | 45,471,509 |
| Service | 99,643,937 | 95,359,239 |
| Travel and training | 2,654,806 | 2,666,947 |
| Total service line expenses | <u>524,851,721</u> | <u>522,063,540</u> |
| Other operating expenses | | |
| Uncompensated care pool uniform expense | 1,503,485 | 866,407 |
| Depreciation and amortization | 29,425,352 | 30,353,317 |
| Other expenses | 57,775 | 97,135 |
| Total operating expenses | <u>555,838,333</u> | <u>553,380,399</u> |
| Loss from operations | <u>(25,498,328)</u> | <u>(25,361,160)</u> |
| Nonoperating revenue (expenses) | | |
| Interest income | 1,048,724 | 1,104,407 |
| Interest expense | (433,217) | (826,724) |
| Tax support | 6,500,000 | 6,500,000 |
| Gain/(loss) on disposal of fixed assets | 696,900 | (54,704) |
| Total nonoperating revenue - net | <u>7,812,407</u> | <u>6,722,979</u> |
| (Deficiency) of revenue over expenses | (17,685,921) | (18,638,181) |
| Capital Contributions | 33,249,815 | - |
| Other restricted donations | 78,928 | (49,754) |
| Increase (decrease) in net assets | <u>15,642,822</u> | <u>(18,687,935)</u> |
| Net assets | | |
| Beginning of year | <u>290,198,326</u> | <u>308,886,261</u> |
| End of year | <u>\$ 305,841,148</u> | <u>\$ 290,198,326</u> |

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, 2014 and 2013

| | 2014 | 2013 |
|--|-----------------------|-----------------------|
| Cash flows from operating activities | | |
| Cash received from patients and third-party payors | \$ 305,578,641 | \$ 313,247,832 |
| Cash received from other governmental sources - net | 178,359,343 | 172,991,716 |
| Cash received from federal and state grants | 11,718,934 | 12,470,061 |
| Other receipts | 31,595,174 | 41,845,470 |
| Cash paid to employees for personal services and fringe benefits | (372,976,708) | (364,894,129) |
| Cash paid for other than personal services | <u>(164,329,953)</u> | <u>(152,875,205)</u> |
| Net cash (used in) provided by operating activities | <u>(10,054,569)</u> | <u>22,785,745</u> |
| Cash flows from investing activities | | |
| Cash released from (used for) restricted funds | (1,802,694) | 7,827,730 |
| Interest received | <u>1,043,136</u> | <u>1,180,380</u> |
| Net cash (used in) provided by investing activities | <u>(759,558)</u> | <u>9,008,110</u> |
| Cash flows from capital and related financing activities | | |
| Net cash received for restricted gifts and related income | 78,927 | (49,754) |
| Proceeds from the sale of fixed assets | 13,050 | 2,000 |
| Purchase of capital assets | (10,770,216) | (12,872,556) |
| Recovery of Neville Manor loans previously reserved | 759,000 | |
| Payments on capital leases - principal | (2,821,862) | (4,987,183) |
| Payments on capital leases - interest | (112,202) | (420,584) |
| Payment of City of Cambridge bond - principal | (1,500,000) | (1,500,000) |
| Payment of City of Cambridge bond - interest | (337,500) | (405,000) |
| Payments on note payable of 237 Hampshire Street-principal | (57,844) | (55,303) |
| Payments on note payable of 237 Hampshire Street-interest | <u>(26,725)</u> | <u>(29,265)</u> |
| Net cash (used in) capital and related financing activities | <u>(14,775,372)</u> | <u>(20,317,645)</u> |
| Cash flows from noncapital financing activities | | |
| Cash appropriations received from City of Cambridge | <u>6,500,000</u> | <u>6,500,000</u> |
| Net (decrease) increase in cash and cash equivalents | (19,089,499) | 17,976,210 |
| Cash and cash equivalents | | |
| Beginning of year | <u>271,324,181</u> | <u>253,347,971</u> |
| End of year | <u>\$ 252,234,682</u> | <u>\$ 271,324,181</u> |

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|------------------------|----------------------|
| Reconciliation of (deficiency) of revenue over expenses to net cash provided by operating activities | | |
| (Deficiency) of revenue over expense | \$ (17,685,921) | \$ (18,638,181) |
| Adjustment to reconcile deficiency of revenue over expenses to net cash provided by operating activities | | |
| Capital Contribution | 33,249,815 | - |
| Loss on disposal of fixed assets | 81,221 | 54,704 |
| Recovery of Neville Manor loans previously reserved | (759,000) | - |
| Depreciation and amortization | 29,425,352 | 30,353,317 |
| Provision for bad debts | 32,957,113 | 29,626,728 |
| Interest paid | 433,217 | 826,724 |
| Tax support | (6,500,000) | (6,500,000) |
| Interest received | (1,043,136) | (1,180,380) |
| Change in assets and liabilities | | |
| (Increase) in patient accounts receivables | (33,014,682) | (29,615,198) |
| (Increase) decrease in inventories | (239,600) | 106,826 |
| (Increase) decrease in other current assets | (1,165,661) | 12,844,296 |
| (Increase) in prepaid expenses | (264,282) | (776,367) |
| (Increase) in due from third parties | (1,754,958) | (12,000,000) |
| (Increase) decrease in other assets | (214,326) | 2,250,831 |
| Increase in accounts payable and accrued expenses | 250,793 | 1,463,245 |
| (Decrease) increase in salaries and compensated absences | (6,268,270) | 3,680,659 |
| Increase in post-employment benefits | 4,258,840 | 5,550,538 |
| (Decrease) increase in due to third parties | (224,688) | 6,354,434 |
| (Decrease) in deferred revenue | (41,576,396) | (1,616,431) |
| Net cash (used in) provided by operating activities | <u>\$ (10,054,569)</u> | <u>\$ 22,785,745</u> |
| Noncash financing activities-capital leases & financing | \$ 1,109,039 | \$ 3,776,924 |

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

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Notes to Financial Statements
June 30, 2014 and 2013

1. Organization

The Cambridge Public Health Commission (“CPHC”), d/b/a 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 upon nomination by the Board: two officers or employees of the City, 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”).

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Notes to Financial Statements
June 30, 2014 and 2013

The collective operations of the Alliance and its subsidiaries consist of the following operating divisions: Provider Network, CHA Management Services, Inc., and Commission. These divisions are reported in the combining financial statements that are supplemental schedules.

On November 1, 2011, Network Health, Inc. (“NHI”) 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 had recorded an allowance for outstanding loan and accrued interest amounts to NCHI and NALLP as of June 30, 2013 of \$4,837,958 due to uncertainty regarding collection. The Alliance recovered \$759,000 from NALLP during fiscal year 2014 and the remainder was written off. There are no outstanding liabilities as of June 30, 2014.

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.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Notes to Financial Statements
June 30, 2014 and 2013

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 from 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 2014 and 2013, changes in prior-year estimates increased net patient service revenue by approximately \$7,482,808 and \$1,100,000 respectively.

Capitation Contracts

The Alliance entered into various capitation contracts with Medicaid, Medicare and other Commercial payers in 2014 with various reimbursement arrangements including reimbursement based on a per-member-per month basis, shared risk, and limited risk. Total revenue for capitation contracts was \$969,877 in 2014 and \$1,601,088 in 2013.

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.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Notes to Financial Statements
June 30, 2014 and 2013

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 letters of credit, malpractice claims, the Elder Services Program insolvency fund which is restricted by the Commonwealth and funds related to the sale of the managed care program (Network Health).

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 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, 2014 and 2013.

Capital Contributions

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 to whom services are not reimbursed by third-party payors. As of June 30, 2013 the Alliance had deferred the cash received under this agreement because all eligibility requirements had not then been met. As of June 30, 2014, the Alliance determined that eligibility requirements have been met, and accordingly recorded the related capital contribution. 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. Capital contributions were \$33.2 million in the year ended June 30, 2014. There were no capital contributions during the year ended June 30, 2013.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Notes to Financial Statements
June 30, 2014 and 2013

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 2014 and 2013 amounted to \$0.00 and \$3,477, 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. Somerville Hospital was an organization described in Section 509(a)(1) of the Code until July 25, 2013 when the IRS issued an updated determination letter classifying Somerville Hospital as a supporting organization described in Section 509(a)(3) of the Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Reclassifications

Certain amounts from the 2013 financial statements have been reclassified to conform to the 2014 presentation.

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, 2014 and 2013, the carrying amount of the Alliance's bank deposits were \$269,611,519 and \$286,898,325, respectively, and the bank balances totaled \$272,313,513 and \$289,077,407, respectively. The amount insured through the Federal Depository Insurance Corporation as of June 30, 2014 remained at \$1,250,000, no change from June 30, 2013. The Alliance holds a significant balance with Santander Bank of about \$250M. The Alliance monitors the credit worthiness of this institution and has not experienced any losses associated with deposits.

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

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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, 2014 and 2013, all investments met these requirements. The Alliance has no limit on the amount that they may invest in any one issuer.

Cash and investments as of June 30, 2014 and 2013, consist of the following:

| | Maturities | 2014 | 2013 |
|--|-------------------|-----------------------|-----------------------|
| Operating cash | Current | \$ 21,098,490 | \$ 22,638,146 |
| Investment in money market funds | Current | 230,698,747 | 246,479,791 |
| Investment in Massachusetts Municipal Depository Trust | Current | 17,814,282 | 17,780,388 |
| Total operating cash and investments | | <u>\$ 269,611,519</u> | <u>\$ 286,898,325</u> |

These investments are recorded in the statements of net assets as of June 30, 2014 and 2013, under the following captions:

| | 2014 | 2013 |
|--|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 252,234,682 | \$ 271,324,181 |
| Investments | | |
| Assets whose use is limited or restricted | | |
| Internally by board of funded depreciation | 10,683,837 | 51,061 |
| Mystic lease letter of credit | 750,000 | 1,500,000 |
| Sentry letter of credit | 1,500,000 | 1,500,000 |
| 350 Main lease letter of credit | 875,000 | 875,000 |
| Held for malpractice claims | 3,468,000 | 4,019,000 |
| Held in escrow | - | 7,529,083 |
| Held by trustee for insolvency fund | 100,000 | 100,000 |
| Total cash and investments | <u>\$ 269,611,519</u> | <u>\$ 286,898,325</u> |

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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 \$76,784,960 and \$82,897,936 for the years ended June 30, 2014 and 2013, respectively. The equivalent percentage of charity care to all patients served was approximately 9.6% and 10.6% of total patient service charges for the years ended June 30, 2014 and 2013, respectively. Effective October 1, 2007, the Commonwealth implemented (“HSN”) as the replacement to the Uncompensated Care Pool. The Alliance has recognized revenues of approximately \$50,000,000 and \$50,961,455 in fiscal 2014 and 2013, 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 2014 in the amount of \$1,503,485 and in 2013 in the amount of \$1,543,449 less a prior year settlement of \$677,042 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 \$52,876,865 and \$53,268,645 for the years ended June 30, 2013 and 2012, 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, 2014 and 2013, as follows:

| | 2014 | 2013 |
|--|-----------------------|-----------------------|
| Gross patient service revenue (excluding charity care of \$76,784,960 and \$82,897,936 in 2014 and 2013, respectively) | \$ 719,418,481 | \$ 698,116,714 |
| Less: Allowances for | | |
| Contractual adjustments | 395,479,216 | 388,919,970 |
| Bad debts | 32,957,113 | 29,626,728 |
| Net patient service revenue | <u>\$ 290,982,152</u> | <u>\$ 279,570,016</u> |

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, 2014 and 2013, were as follows:

| | Net Patient Receivables | | Gross Patient Revenue | |
|----------------------|------------------------------------|--------------|----------------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| Medicare | 12 % | 7 % | 25 % | 25 % |
| Medicaid | 27 | 33 | 31 | 32 |
| Blue cross | 7 | 7 | 10 | 10 |
| Commercial insurance | 4 | 4 | 4 | 4 |
| Patients (self-pay) | 30 | 33 | 11 | 12 |
| Other | 20 | 16 | 19 | 17 |
| | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> |

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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, 2014 and 2013, the Alliance had receivables from the Commonwealth (Medicaid) of \$4,473,446 and \$7,416,872, respectively.

6. Capital Assets

Capital assets as of June 30, 2014, are composed of the following:

| | June 30, 2013 | Additions | Transfer | Disposals | June 30, 2014 |
|--|-----------------------|------------------------|---------------------|---------------------|-----------------------|
| Capital assets-not being depreciated | | | | | |
| Land | \$ 7,199,945 | \$ - | \$ - | \$ - | \$ 7,199,945 |
| Construction in progress | 1,686,455 | 11,655,084 | (11,288,729) | - | 2,052,810 |
| Total capital assets-not being depreciated | <u>8,886,400</u> | <u>11,655,084</u> | <u>(11,288,729)</u> | <u>-</u> | <u>9,252,755</u> |
| Capital assets-being depreciated | | | | | |
| Land and improvements | 2,120,995 | - | 160,869 | - | 2,281,864 |
| Building and improvements | 221,825,380 | - | 2,244,233 | (189,358) | 223,880,255 |
| Major moveable equipment | 135,509,845 | - | 7,141,323 | (6,660,108) | 135,991,060 |
| Fixed equipment | 99,210,052 | - | 1,742,304 | (39,099) | 100,913,257 |
| Property under capital leases | 3,332,647 | 887,026 | - | - | 4,219,673 |
| Equipments under capital leases | 4,118,215 | 256,013 | - | - | 4,374,228 |
| Total capital assets-being depreciated | <u>466,117,134</u> | <u>1,143,039</u> | <u>11,288,729</u> | <u>(6,888,565)</u> | <u>471,660,337</u> |
| Less: Accumulated depreciation for | | | | | |
| Land and improvements | 1,074,608 | 107,028 | - | - | 1,181,636 |
| Building and improvements | 127,319,723 | 9,563,667 | - | (139,476) | 136,743,914 |
| Major moveable equipment | 102,477,295 | 14,848,790 | - | (6,582,136) | 110,743,949 |
| Fixed equipment | 75,829,007 | 2,909,428 | - | (38,684) | 78,699,751 |
| Property under capital leases | 1,884,710 | 1,453,769 | - | - | 3,338,479 |
| Equipment under capital leases | 1,728,646 | 542,670 | - | - | 2,271,316 |
| Total accumulated depreciation | <u>310,313,989</u> | <u>29,425,352</u> | <u>-</u> | <u>(6,760,296)</u> | <u>332,979,045</u> |
| Total capital assets-being depreciated - net | <u>155,803,145</u> | <u>(28,282,313)</u> | <u>11,288,729</u> | <u>(128,269)</u> | <u>138,681,292</u> |
| Capital assets-net | <u>\$ 164,689,545</u> | <u>\$ (16,627,229)</u> | <u>\$ -</u> | <u>\$ (128,269)</u> | <u>\$ 147,934,047</u> |

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Capital assets at June 30, 2013, are composed of the following:

| | June 30, 2012 | Additions | Transfer | Disposals | June 30, 2013 |
|--|-----------------------|------------------------|---------------------|-----------------------|-----------------------|
| Capital assets-not being depreciated | | | | | |
| Land | \$ 7,199,945 | \$ - | \$ - | \$ - | \$ 7,199,945 |
| Construction in progress | 2,454,211 | 12,186,420 | (12,954,176) | - | 1,686,455 |
| Total capital assets-not being depreciated | <u>9,654,156</u> | <u>12,186,420</u> | <u>(12,954,176)</u> | <u>-</u> | <u>8,886,400</u> |
| Capital assets-being depreciated | | | | | |
| Land and improvements | 1,951,835 | - | 169,160 | - | 2,120,995 |
| Building and improvements | 210,978,737 | - | 10,846,643 | - | 221,825,380 |
| Major moveable equipment | 115,851,995 | - | 22,985,345 | (3,327,495) | 135,509,845 |
| Fixed equipment | 90,821,969 | 2,626,593 | 11,171,183 | (5,409,693) | 99,210,052 |
| Property under capital leases | 47,798,989 | - | (15,468,687) | (28,997,655) | 3,332,647 |
| Equipments under capital leases | 20,819,855 | 1,149,904 | (16,749,468) | (1,102,076) | 4,118,215 |
| Total capital assets-being depreciated | <u>488,223,380</u> | <u>3,776,497</u> | <u>12,954,176</u> | <u>(38,836,919)</u> | <u>466,117,134</u> |
| Less: Accumulated depreciation for | | | | | |
| Land and improvements | 969,312 | 105,296 | - | - | 1,074,608 |
| Building and improvements | 112,560,547 | 9,677,891 | 5,081,285 | - | 127,319,723 |
| Major moveable equipment | 80,165,953 | 13,380,401 | 12,229,852 | (3,298,911) | 102,477,295 |
| Fixed equipment | 74,422,710 | 2,461,589 | 4,319,161 | (5,374,453) | 75,829,007 |
| Property under capital leases | 29,402,290 | 2,388,697 | (8,667,810) | (21,238,467) | 1,884,710 |
| Equipment under capital leases | 13,761,600 | 2,031,610 | (12,962,488) | (1,102,076) | 1,728,646 |
| Total accumulated depreciation | <u>311,282,412</u> | <u>30,045,484</u> | <u>-</u> | <u>(31,013,907)</u> | <u>310,313,989</u> |
| Total capital assets-being depreciated - net | <u>176,940,968</u> | <u>(26,268,987)</u> | <u>12,954,176</u> | <u>(7,823,012)</u> | <u>155,803,145</u> |
| Capital assets-net | <u>\$ 186,595,124</u> | <u>\$ (14,082,567)</u> | <u>\$ -</u> | <u>\$ (7,823,012)</u> | <u>\$ 164,689,545</u> |

Depreciation expense relating to capital assets amounted to \$29,425,352 and \$30,349,839 for the years ended June 30, 2014 and 2013, respectively.

7. Long-Term Debt

Bonds Payable

Bonds payable as of June 30, 2014 and 2013, consists of the following:

| | 2014 | 2013 |
|---|---------------------|---------------------|
| City of Cambridge, general long-term obligations, and The Cambridge Hospital | \$ 5,995,000 | \$ 7,495,000 |
| Less: Current portion | <u>1,500,000</u> | <u>1,500,000</u> |
| Noncurrent portion | <u>\$ 4,495,000</u> | <u>\$ 5,995,000</u> |

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%.

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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, 2014 and June 30, 2013, \$5,995,000 and \$7,495,000 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, 2014, on long-term debt in future years are as follows:

| Years Ending June 30 | Principal Payments | Interest Payments | Total Payments |
|---|---------------------------|--------------------------|-----------------------|
| 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 | <u>1,495,000</u> | <u>67,500</u> | <u>1,562,500</u> |
| Balance at June 30, 2014 (including bonds maturing within one year) | <u>\$ 5,995,000</u> | <u>\$ 675,000</u> | <u>\$ 6,670,000</u> |

Bonds payable activity for the years ended June 30, 2014 and 2013, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---------------------------------------|--------------------------|------------------|-----------------------|-----------------------|----------------------------|
| 2014 | | | | | |
| Bonds payable-City of Cambridge bonds | <u>\$ 7,495,000</u> | <u>\$ -</u> | <u>\$ (1,500,000)</u> | <u>\$ 5,995,000</u> | <u>\$ 1,500,000</u> |
| 2013 | | | | | |
| Bonds payable-City of Cambridge bonds | <u>\$ 8,995,000</u> | <u>\$ -</u> | <u>\$ (1,500,000)</u> | <u>\$ 7,495,000</u> | <u>\$ 1,500,000</u> |

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, 2014 and 2013 consists of the following:

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Note payable for 237 Hampshire Street Purchase | \$ 562,357 | \$ 620,200 |
| Less: Current portion | <u>60,501</u> | <u>57,843</u> |
| Noncurrent portion | <u>\$ 501,856</u> | <u>\$ 562,357</u> |

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Financing activity for the years ended June 30, 2014 and 2013, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|-------------------------------------|------------------------------|------------------|------------------|---------------------------|--------------------------------|
| 2014 | | | | | |
| Note payable - 237 Hampshire Street | \$ 620,200 | \$ - | \$ (57,843) | \$ 562,357 | \$ 60,501 |
| 2013 | | | | | |
| Note payable - 237 Hampshire Street | \$ 675,503 | \$ - | \$ (55,303) | \$ 620,200 | \$ 57,843 |

Leases

A schedule of future minimum lease payments as of June 30, 2014, under capital and operating lease obligations is as follows:

| Years Ending June 30 | Capital Leases | Operating Leases |
|-------------------------------|---------------------------|-----------------------------|
| 2015 | \$ 1,366,798 | \$ 5,585,489 |
| 2016 | 843,233 | 4,915,641 |
| 2017 | 844,749 | 3,385,668 |
| 2018 | 459,650 | 2,562,250 |
| 2019 | 170,838 | 1,838,415 |
| 2020 | - | 1,880,977 |
| 2021 | - | 1,528,987 |
| 2022 | - | 1,440,031 |
| 2023 | - | 1,482,594 |
| 2024 | - | 1,525,156 |
| 2025 | - | 773,219 |
| | <u>3,685,268</u> | <u>\$ 26,918,427</u> |
| Less: | | |
| Amounts representing interest | 66,652 | |
| Current installments | <u>1,529,748</u> | |
| Noncurrent capital leases | <u>\$ 2,088,868</u> | |

Capital lease activity for the years ended June 30, 2014 and 2013 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---------------------------|------------------------------|------------------|------------------|---------------------------|--------------------------------|
| 2014 | | | | | |
| Capital lease obligations | \$ 5,331,442 | \$ 1,109,039 | \$ (2,821,865) | \$ 3,618,616 | \$ 1,529,748 |
| 2013 | | | | | |
| Capital lease obligations | \$ 13,996,534 | \$ 3,776,924 | \$ (12,442,016) | \$ 5,331,442 | \$ 3,183,431 |

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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 \$5,740,176 and \$5,518,354 for the years ended June 30, 2014 and 2013, respectively.

8. 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 \$5,931,321, \$5,603,515, and \$5,257,800 for the years ended June 30, 2014, 2013, and 2012, 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, January 1, 2010, December 4, 2011, and further amended effective April 11, 2013.

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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 nonelective (“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 % nonelective (“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 \$4,172,947 and \$4,020,964 for the years ended June 30, 2014, and 2013, 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 for a maximum of 2% matching contribution. 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 \$2,260,892, and \$2,158,060 to the CHAPO 403(b) plan for the years ended June 30, 2014 and 2013, respectively.

9. 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. The plan is a single-employer plan. Stand alone financial statements are not issued for this program.

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.

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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 2014 and 2013, the Alliance contributed \$4,983,138 and \$5,417,160, respectively, for current premiums and self-insured claims. There were 1,476 plan members as of December 31, 2012, the most recent actuarial valuation date, including 543 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, 2014 and 2013, and related information were as follows:

| | 2014 | 2013 |
|---------------------------------|----------------------|----------------------|
| Annual required contribution | \$ 9,879,618 | \$ 11,521,773 |
| Interest on net OPEB obligation | 1,905,907 | 1,656,133 |
| Adjustment to ARC | <u>(2,543,547)</u> | <u>(2,210,208)</u> |
| Annual OPEB cost | 9,241,978 | 10,967,698 |
| Contributions made | <u>(4,983,138)</u> | <u>(5,417,160)</u> |
| Increase in net OPEB obligation | 4,258,840 | 5,550,538 |
| Net OPEB obligation | | |
| Beginning of year | <u>42,353,497</u> | <u>36,802,959</u> |
| End of year | <u>\$ 46,612,337</u> | <u>\$ 42,353,497</u> |

The OPEB actuarial accrued liability (AAL) as of June 30, 2014, as estimated as of December 31, 2012, by consulting actuaries amounted to \$120,698,394. 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)] |
|--------------------------|---------------------------------|---------------------------------------|-------------------------------|------------------------|---------------------|---|
| 12/31/2010 | - | 148,823,259 | 148,823,259 | 0.00 % | N/A | N/A |
| 12/31/2012 | - | 120,698,394 | 120,698,394 | 0.00 % | N/A | N/A |

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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.

Schedule of Employer Contributions

| Fiscal Year Ended June 30, | Annual OPEB Cost | Actual Contributions | Percentage Contributed |
|---------------------------------------|-----------------------------|---------------------------------|-----------------------------------|
| 2012 | 10,988,624 | 5,002,736 | 45.5 % |
| 2013 | 10,967,698 | 5,417,160 | 49.4 % |
| 2014 | 9,241,978 | 4,983,138 | 53.9 % |

Three Year Schedule of Percentage of OPEB Cost Contributed

| Fiscal Year Ended June 30, | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|---------------------------------------|-----------------------------|-----------------------------------|--------------------------------|
| 2012 | 10,988,624 | 45.5 % | 36,802,959 |
| 2013 | 10,967,698 | 49.4 % | 42,353,497 |
| 2014 | 9,241,978 | 53.9 % | 46,612,337 |

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, 2012, 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 8% 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.

10. 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, 2014 and 2013, 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.

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Notes to Financial Statements
June 30, 2014 and 2013

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 \$3,914,907 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, 2014 and 2013, 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 2014 and 2013 was \$983,422 and \$999,686, respectively, and is included in salary and benefits expenses in the accompanying statements of revenue, expenses, and changes in net assets.

11. Subsequent Events

Subsequent events have been evaluated through December 5, 2014, 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, 2014

| | Combined Provider Network | Commission | CHA Management Services, Inc. | Eliminations | Total CHA |
|---|---------------------------------|----------------------|----------------------------------|-----------------------|-----------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 15,689,100 | \$ 73,449,376 | \$ 163,096,206 | \$ - | \$ 252,234,682 |
| Intragroup accounts | - | - | 7,828,629 | (7,828,629) | - |
| Patient accounts receivable (less allowance for doubtful accounts of \$58,817,000 in 2014) | 33,308,375 | - | - | - | 33,308,375 |
| Inventories | 2,131,070 | - | - | - | 2,131,070 |
| Prepaid expenses | 5,359,750 | - | - | - | 5,359,750 |
| Due from third parties - current | 13,754,958 | - | - | - | 13,754,958 |
| Other current assets | 7,841,755 | - | - | - | 7,841,755 |
| Total current assets | <u>78,085,008</u> | <u>73,449,376</u> | <u>170,924,835</u> | <u>(7,828,629)</u> | <u>314,630,590</u> |
| Assets whose use is limited or restricted | | | | | |
| Internally restricted by Board for funded depreciation | 10,683,837 | - | - | - | 10,683,837 |
| Held for loan collateral | 3,125,000 | - | - | - | 3,125,000 |
| Held for malpractice claims | 3,468,000 | - | - | - | 3,468,000 |
| Held for trustee for insolvency fund | 100,000 | - | - | - | 100,000 |
| Total assets whose use is limited or restricted | <u>17,376,837</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>17,376,837</u> |
| Capital assets - net | 142,474,047 | 5,460,000 | - | - | 147,934,047 |
| Other assets | 3,704,306 | - | - | - | 3,704,306 |
| Total assets | <u>\$ 241,640,198</u> | <u>\$ 78,909,376</u> | <u>\$ 170,924,835</u> | <u>\$ (7,828,629)</u> | <u>\$ 483,645,780</u> |
| Liabilities and net assets | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued expenses | \$ 27,037,671 | \$ - | \$ - | \$ - | \$ 27,037,671 |
| Accrued salaries and compensated absences | 37,305,050 | - | - | - | 37,305,050 |
| Intragroup accounts | 7,828,629 | - | - | (7,828,629) | - |
| Due to third parties - current | 35,234,711 | - | - | - | 35,234,711 |
| Bonds payable - current | 1,500,000 | - | - | - | 1,500,000 |
| Note payable - current | 60,501 | - | - | - | 60,501 |
| Capital lease obligations - current | 1,529,748 | - | - | - | 1,529,748 |
| Deferred revenue | 2,154,098 | - | - | - | 2,154,098 |
| Postemployment benefits - current | 5,346,198 | - | - | - | 5,346,198 |
| Total current liabilities | <u>117,996,606</u> | <u>-</u> | <u>-</u> | <u>(7,828,629)</u> | <u>110,167,977</u> |
| Due to third parties - noncurrent | 19,284,792 | - | - | - | 19,284,792 |
| Post employment benefits - noncurrent | 41,266,139 | - | - | - | 41,266,139 |
| Bonds payable - noncurrent | 4,495,000 | - | - | - | 4,495,000 |
| Note payable - noncurrent | 501,856 | - | - | - | 501,856 |
| Capital lease obligations - noncurrent | 2,088,868 | - | - | - | 2,088,868 |
| Total liabilities | <u>185,633,261</u> | <u>-</u> | <u>-</u> | <u>(7,828,629)</u> | <u>177,804,632</u> |
| Net assets | | | | | |
| Unrestricted | (80,652,672) | 73,449,376 | 170,924,835 | - | 163,721,539 |
| Invested in capital assets - net of related debt | 132,298,074 | 5,460,000 | - | - | 137,758,074 |
| Restricted | 4,361,535 | - | - | - | 4,361,535 |
| Total net assets | <u>56,006,937</u> | <u>78,909,376</u> | <u>170,924,835</u> | <u>-</u> | <u>305,841,148</u> |
| | <u>\$ 241,640,198</u> | <u>\$ 78,909,376</u> | <u>\$ 170,924,835</u> | <u>\$ (7,828,629)</u> | <u>\$ 483,645,780</u> |

Cambridge Health Alliance
(A component unit of the City of Cambridge, Massachusetts)
Combining Statements of Net Assets
June 30, 2013

| | Combined Provider Network | Commission | CHA Management Services, Inc. | Eliminations | Total CHA |
|---|---------------------------------|----------------------|----------------------------------|---------------------|-----------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 27,650,044 | \$ 81,179,130 | \$ 162,495,007 | \$ - | \$ 271,324,181 |
| Intragroup accounts | - | - | 314,842 | (314,842) | - |
| Patient accounts receivable (less allowance for doubtful accounts of \$55,154,000 in 2013) | 33,250,805 | - | - | - | 33,250,805 |
| Inventories | 1,891,470 | - | - | - | 1,891,470 |
| Prepaid expenses | 5,095,468 | - | - | - | 5,095,468 |
| Due from third parties - current | 12,000,000 | - | - | - | 12,000,000 |
| Other current assets | 6,676,094 | - | - | - | 6,676,094 |
| Total current assets | 86,563,881 | 81,179,130 | 162,809,849 | (314,842) | 330,238,018 |
| Assets whose use is limited or restricted | | | | | |
| Internally restricted by Board for funded depreciation | 51,061 | - | - | - | 51,061 |
| Held for loan collateral | 3,875,000 | - | - | - | 3,875,000 |
| Held for malpractice claims | 4,019,000 | - | - | - | 4,019,000 |
| Held for trustee for insolvency fund | 100,000 | - | - | - | 100,000 |
| Held pending final requirements of NHI sale | - | - | 7,529,083 | - | 7,529,083 |
| Total assets whose use is limited or restricted | 8,045,061 | - | 7,529,083 | - | 15,574,144 |
| Capital assets - net | 159,229,545 | 5,460,000 | - | - | 164,689,545 |
| Other assets | 3,489,980 | - | - | - | 3,489,980 |
| Total assets | \$ 257,328,467 | \$ 86,639,130 | \$ 170,338,932 | \$ (314,842) | \$ 513,991,687 |
| Liabilities and net assets | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued expenses | \$ 25,934,923 | \$ - | \$ 10,300 | \$ - | \$ 25,945,223 |
| Accrued salaries and compensated absences | 43,573,320 | - | - | - | 43,573,320 |
| Intragroup accounts | 314,842 | - | - | (314,842) | - |
| Due to third parties - current | 20,758,282 | - | - | - | 20,758,282 |
| Bonds payable - current | 1,500,000 | - | - | - | 1,500,000 |
| Note payable - current | 57,843 | - | - | - | 57,843 |
| Capital lease obligations - current | 3,183,431 | - | - | - | 3,183,431 |
| Deferred revenue | 2,216,123 | 41,514,366 | - | - | 43,730,489 |
| Postemployment benefits - current | 5,861,320 | - | - | - | 5,861,320 |
| Total current liabilities | 103,400,084 | 41,514,366 | 10,300 | (314,842) | 144,609,908 |
| Due to third parties - noncurrent | 33,985,909 | - | - | - | 33,985,909 |
| Post employment benefits - noncurrent | 36,492,177 | - | - | - | 36,492,177 |
| Bonds payable - noncurrent | 5,995,000 | - | - | - | 5,995,000 |
| Note payable - noncurrent | 562,357 | - | - | - | 562,357 |
| Capital lease obligations - noncurrent | 2,148,010 | - | - | - | 2,148,010 |
| Total liabilities | 182,583,537 | 41,514,366 | 10,300 | (314,842) | 223,793,361 |
| Net assets | | | | | |
| Unrestricted | (75,320,583) | 39,664,764 | 170,328,632 | - | 134,672,813 |
| Invested in capital assets - net of related debt | 145,782,905 | 5,460,000 | - | - | 151,242,905 |
| Restricted | 4,282,608 | - | - | - | 4,282,608 |
| Total net assets | 74,744,930 | 45,124,764 | 170,328,632 | - | 290,198,326 |
| Total net assets | \$ 257,328,467 | \$ 86,639,130 | \$ 170,338,932 | \$ (314,842) | \$ 513,991,687 |

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, 2014

| | Combined Provider Network | Commission | CHA Management Services, Inc. | Eliminations | Total CHA |
|---|---------------------------------|---------------|----------------------------------|--------------|----------------|
| Operating revenue | | | | | |
| Net patient service revenue (net of provision for bad debts of \$32,957,000 in 2014) | \$ 290,982,152 | \$ - | \$ - | \$ - | \$ 290,982,152 |
| Federal and state support | 154,999,999 | - | - | - | 154,999,999 |
| Other operating revenue | 84,357,854 | - | - | - | 84,357,854 |
| Total operating revenue | 530,340,005 | - | - | - | 530,340,005 |
| Operating expenses | | | | | |
| Salary and benefits | 375,713,458 | - | - | - | 375,713,458 |
| Supplies | 46,839,520 | - | - | - | 46,839,520 |
| Service | 99,529,144 | 104,193 | 10,600 | - | 99,643,937 |
| Travel and training | 2,654,806 | - | - | - | 2,654,806 |
| Total service line expenses | 524,736,928 | 104,193 | 10,600 | - | 524,851,721 |
| Other operating expenses | | | | | |
| Uncompensated care pool uniform expense | 1,503,485 | - | - | - | 1,503,485 |
| Depreciation and amortization | 29,425,352 | - | - | - | 29,425,352 |
| Other expenses | 57,775 | - | - | - | 57,775 |
| Total operating expenses | 555,723,540 | 104,193 | 10,600 | - | 555,838,333 |
| (Loss) from operations | (25,383,535) | (104,193) | (10,600) | - | (25,498,328) |
| Nonoperating revenue (expenses) | | | | | |
| Interest income | 39,021 | 402,900 | 606,803 | - | 1,048,724 |
| Interest expense | (433,217) | - | - | - | (433,217) |
| Tax support | 6,500,000 | - | - | - | 6,500,000 |
| Gain/(loss) on disposal of fixed assets | (62,100) | 759,000 | - | - | 696,900 |
| Total nonoperating revenue - net | 6,043,704 | 1,161,900 | 606,803 | - | 7,812,407 |
| (Deficiency) excess of revenue over expenses | (19,339,831) | 1,057,707 | 596,203 | - | (17,685,921) |
| Capital contributions | 33,249,815 | - | - | - | 33,249,815 |
| Other restricted donations | 78,928 | - | - | - | 78,928 |
| Interdivision transfers | (32,726,905) | 32,726,905 | - | - | - |
| (Decrease) increase in net assets | (18,737,993) | 33,784,612 | 596,203 | - | 15,642,822 |
| Net assets | | | | | |
| Beginning of year | 74,744,930 | 45,124,764 | 170,328,632 | - | 290,198,326 |
| End of year | \$ 56,006,937 | \$ 78,909,376 | \$ 170,924,835 | \$ - | \$ 305,841,148 |

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, 2013

| | Combined Provider Network | Commission | CHA Management Services, Inc. | Eliminations | Total CHA |
|---|---------------------------------|---------------|----------------------------------|--------------|----------------|
| Operating revenue | | | | | |
| Net patient service revenue (net of provision for bad debts of \$29,627,000 in 2013) | \$ 279,570,017 | \$ - | \$ - | \$ - | \$ 279,570,017 |
| Federal and state support | 164,996,620 | - | - | - | 164,996,620 |
| Other operating revenue | 83,452,602 | - | - | - | 83,452,602 |
| Total operating revenue | 528,019,239 | - | - | - | 528,019,239 |
| Operating expenses | | | | | |
| Salary and benefits | 378,565,845 | - | - | - | 378,565,845 |
| Supplies | 45,471,509 | - | - | - | 45,471,509 |
| Service | 95,612,166 | (263,227) | 10,300 | - | 95,359,239 |
| Travel and training | 2,666,947 | - | - | - | 2,666,947 |
| Total service line expenses | 522,316,467 | (263,227) | 10,300 | - | 522,063,540 |
| Other operating expenses | | | | | |
| Uncompensated care pool uniform expense | 866,407 | - | - | - | 866,407 |
| Depreciation and amortization | 30,353,317 | - | - | - | 30,353,317 |
| Other expenses | 97,135 | - | - | - | 97,135 |
| Total operating expenses | 553,633,326 | (263,227) | 10,300 | - | 553,380,399 |
| (Loss) from operations | (25,614,087) | 263,227 | (10,300) | - | (25,361,160) |
| Nonoperating revenue (expenses) | | | | | |
| Interest income | 39,245 | 473,242 | 591,920 | - | 1,104,407 |
| Interest expense | (826,724) | - | - | - | (826,724) |
| Tax support | 6,500,000 | - | - | - | 6,500,000 |
| (Loss) on disposal of fixed assets | (54,704) | - | - | - | (54,704) |
| Total nonoperating revenue - net | 5,657,817 | 473,242 | 591,920 | - | 6,722,979 |
| (Deficiency) excess of revenue over expenses | (19,956,270) | 736,469 | 581,620 | - | (18,638,181) |
| Other restricted donations | (49,754) | - | - | - | (49,754) |
| Interdivision transfers | (6,331,275) | 6,331,275 | - | - | - |
| (Decrease) increase in net assets | (26,337,299) | 7,067,744 | 581,620 | - | (18,687,935) |
| Net assets | | | | | |
| Beginning of year | 101,082,229 | 38,057,020 | 169,747,012 | - | 308,886,261 |
| End of year | \$ 74,744,930 | \$ 45,124,764 | \$ 170,328,632 | \$ - | \$ 290,198,326 |

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, 2014

| 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") | | | | |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | | | \$ 149,398 |
| Mental Health Research Grants | 93.242 | | | 2,988 |
| Mental Health Research Grants | 93.242 | | | 4,111 |
| Mental Health Research Grants | 93.242 | | | 219,779 |
| Mental Health Research Grants | 93.242 | | | 675,404 |
| Subtotal of 93.242 | | | | <u>902,282</u> |
| Drug Abuse and Addiction Research Programs | 93.279 | | | <u>726,768</u> |
| Subtotal of 93.279 | | | | <u>726,768</u> |
| Total HHS Direct Research Programs | | | | <u>1,778,448</u> |
| Pass-Through Programs | | | | |
| U.S. Department of Health and Human Services ("HHS") | | | | |
| Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals | 93.156 | Beth Israel Deaconess Medical Center | 5D01HP08794-08 | 139,316 |
| National Research Service Award in Primary Care Medicine | 93.186 | Beth Israel Deaconess Medical Center | 010-25612 | 99,402 |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | Harvard Pilgrim Healthcare | 1 RO1HS020628-01A1 | 126,099 |
| Mental Health Research Grants | 93.242 | Fellows of Harvard College | 135991-506994 | 20,418 |
| Mental Health Research Grants | 93.242 | Fellows of Harvard College | 135992-5070005 | 44,594 |
| Mental Health Research Grants | 93.242 | Emory University | FP052801 | 50,679 |
| Mental Health Research Grants | 93.242 | Palo Alto Institute for Research & Education | S932918 | 115,534 |
| Mental Health Research Grants | 93.242 | | CLO0001-02 | 182,635 |
| Subtotal of 93.242 | | | | <u>413,860</u> |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | The Duffy Center | 1UD1TC23537-02 | 11,420 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | National Institute of Biomedical Imaging and Bioengineering | A12439 | 68,043 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | Rensselaer Polytechnic Institute | A12439 | 70,829 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | Rensselaer Polytechnic Institute | A12201 | 76,845 |
| Subtotal of 93.286 | | | | <u>215,717</u> |
| National Center for Advancing Translational Sciences | 93.350 | Harvard University | 7-149734, 386546, 0625 | 3,759 |
| A RRA - Trans NIH Recovery Act Research Support | 93.701 | Harvard Pilgrim Healthcare | AR001009 | 9,662 |
| Cardiovascular Diseases Research | 93.837 | Boston Medical Center | 1692 | 150,991 |
| Cardiovascular Diseases Research | 93.837 | University of Iowa | 1001151662 | 11,741 |
| Subtotal of 93.837 | | | | <u>162,732</u> |
| Aging Research | 93.866 | Harvard School of Public Health | No award number | 12,082 |
| Total HHS Pass-Through Research Programs | | | | <u>1,194,049</u> |
| Department of Defense | | | | |
| Military Medical Research and Development | 12.420 | Massachusetts General Hospital | 221654 | 19,550 |
| Total Department of Defense Pass-Through Research Programs | | | | <u>19,550</u> |
| Federal Cost Reimbursement Contracts | | | | |
| AHRQ-Agency for Healthcare Research and Quality | 93 | Boston University Medical Campus | 4500001190 | 32,466 |
| Total Federal Cost Reimbursement Contracts | | | | <u>32,466</u> |
| Total Research and Development Cluster | | | | <u>3,024,513</u> |

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, 2014

| Federal Grantor/Pass-Through Grantor/Program or Cluster title | CFDA Number | Pass-Through Awards Entity | Pass-Through Entity Award Number | Federal Expenditures |
|--|-------------|--|----------------------------------|----------------------|
| Other Programs | | | | |
| Direct Programs | | | | |
| U.S. Department of Health and Human Services ("HHS") | | | | |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | | | 52,000 |
| Drug Free Communities Support Program Grants | 93.276 | | | 107,847 |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | 93.918 | | | 565,591 |
| Total HHS Direct Non Research Programs | | | | 725,438 |
| Pass-Through Programs | | | | |
| U.S. Department of Health and Human Services ("HHS") | | | | |
| Medical Reserve Corps Small Grant Program | 93.008 | National Association of County and City Health Officials | MRC 11.400 (MRCSG101005-02) | 2,362 |
| Public Health Emergency Preparedness | 93.074 | MA Department of Public Health | INTF6208P01902414148 | 19,270 |
| P-public Health Emergency Preparedness | 93.074 | MA Department of Public Health | INTF6208P-01902414148 | 494,896 |
| Subtotal of 93.704 | | | | 514,168 |
| Coordinated Services and Access to Research for Women, Infants, Children, and Youth | 93.153 | Dimock Community Health Center, Inc. | B9762 | 114,318 |
| Family Planning Services | 93.217 | Action for Boston Community Development | 68120 | 217,653 |
| Consolidated Health Centers | 93.224 | Boston Healthcare for Homeless | CSH100901-02-1 | 149,046 |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | L.U.K. Crisis Center | 2U79SM059479-04 | 65,174 |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | The Trauma Center at Justice Resource Institute | 1H79T1023336 | 9,735 |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | Wayside Youth and Family Support Center | No award number | 24,665 |
| Subtotal of 93.243 | | | | 99,574 |
| Drug Free Communities Support Program Grants | 93.276 | City of Somerville | No award number | 1,173 |
| Centers for Disease Control and Prevention and Technical Assistance | 93.283 | City of Somerville | No award number | 17,000 |
| Centers for Disease Control and Prevention-Investigations and Technical Assistance | 93.283 | MA Department of Public Health | INTF-3406MM3900817015 | 230,000 |
| Subtotal of 93.283 | | | | 247,000 |
| PPHF National Public Health Improvement Initiative | 93.507 | MA Department of Public Health | 1U56CD001323.01 | 44,541 |
| Refugee and Entrant Assistance-State Administered Programs | 93.566 | American Public Health Association | INTF5189MM3600914061121 | 28,956 |
| PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Tran | 93.531 | MA Department of Public Health | INTF4200PP1W20612048 | 15,000 |
| PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Tran | 93.531 | MA Department of Public Health | INTF4200PP1W20612048 | 45,000 |
| Subtotal of 93.531 | | | | 60,000 |
| National Bioterrorism Hospital Preparedness Program | 93.889 | Boston University Medical Campus | 7984-5 | 2,470 |
| National Bioterrorism Hospital Preparedness Program | 93.889 | MA Department of Public Health | INTF6207PP1204215580 | 63,629 |
| National Bioterrorism Hospital Preparedness Program | 93.889 | Mass League of Community Health Centers | No award number | 12,500 |
| Subtotal of 93.889 | | | | 78,599 |
| HIV Emergency Relief Project Grants | 93.914 | Boston Public Health Commission | P021201970 | 251,090 |
| HIV Emergency Relief Project Grants | 93.914 | Boston Public Health Commission | REC. NO. 2717 | 4,158 |
| Subtotal of 93.914 | | | | 255,248 |
| HIV Prevention Act - Health Department Based | 93.940 | MA Department of Public Health | INTF4942MM3100119006 | 175,200 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | MA Department of Public Health | INTF2354M04301822070 | 100,000 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | MA Department of Public Health | INTF2351MM3802114015 | 58,649 |
| Subtotal of 93.959 | | | | 156,649 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | MA Department of Public Health | INTF7900MM3701516137 | 51,162 |
| Total HHS Pass-Through Non Research Programs | | | | 2,197,649 |
| Total HHS Non Research Programs | | | | 2,923,087 |

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, 2014

| 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 | | | | |
| Pass-Through Programs | | | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | City of Somerville | No award number | 7,400 |
| Lead Hazard Reduction Demonstration Grant Program | 14.905 | Malden Redevelopment Authority | No award number | 19,223 |
| Total U.S. Department of Housing and Urban Development | | | | 26,623 |
| U.S. Department of Justice | | | | |
| Pass-Through Programs | | | | |
| Crime Victim Assistance | 16.575 | MA Office for Victim Assistance | SCVWA11104CAMB1 | 245,321 |
| Total U.S. Department of Justice | | | | 245,321 |
| U.S. Department of Agriculture | | | | |
| Pass-through Programs | | | | |
| Special Supplemental Nutrition Program for Women Infants and Children | 10.557 | MA Department of Public Health | INTF3502M03700915057 | 565,550 |
| Total U.S. Department of Agriculture | | | | 565,550 |
| U.S. Department of Homeland Security | | | | |
| Pass-Through Programs | | | | |
| Disaster/Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | MA Department of Public Health | 3362-EM-MA | 1,926 |
| Emergency Management Performance Grant | 97.042 | MA Department of Public Health | MRC 11 400 (MRCSG101005-02) | 2,300 |
| Total U.S. Department of Homeland Security | | | | 4,226 |
| Corporation for National and Community Service | | | | |
| Pass-Through Programs | | | | |
| Social Innovation Fund | 94.019 | AIDS Action Committee | 10SHDC0011 | 33,826 |
| Total Corporation for National and Community Service | | | | 33,826 |
| Total Federal Expenditures | | | | \$ 6,823,146 |

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, 2014

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, 2014. 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 \$565,550 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 \$1,787,035 for the year ended June 30, 2014.

Cambridge Health Alliance
(A Component Unit of the City of Cambridge, Massachusetts)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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, 2014.

| Federal Grantor/program or Cluster Title | Subrecipient | CFDA Number | Amount |
|---|---|----------------|---------------------|
| Research and Development Cluster | | | |
| U.S. Department of Health and Human Services/ Health Research Grants | | | |
| | Yale University | 93.226 | \$ 30,395 |
| | Duke University | 93.242 | 24,728 |
| | Research Foundation for Mental Hygiene | 93.242 | 284,047 |
| | University of Puerto Rico | 93.242 | 284,100 |
| | Group Health Research Institute | 93.242 | 96,816 |
| | Harvard Pilgrim | 93.242 | 28,529 |
| | CMMHR IIS Funacion Jimenez Diaz | 93.279 | 117,036 |
| | Funacio Hospital Iniversitai Vallpasseig | 93.279 | 158,435 |
| | Total U.S. Department of Health and Human Services Research | | <u>\$ 1,024,086</u> |
| Other Programs | | | |
| U.S. Department of Health and Human Services/ | | | |
| | City of Cambridge | 93.959 | 55,285 |
| | City of Somerville | 93.959 | 11,000 |
| | Wayside Youth & Family | 93.959 | 7,500 |
| | Total U.S. Department of Health and Human Services Other Programs | | <u>\$ 73,785</u> |
| | Total U.S. Department of Health and Human Services | | <u>\$ 1,097,871</u> |

Part II
Reports on Internal Control and Compliance



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

To the Board of Trustees of
Cambridge Health Alliance

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cambridge Public Health Commission d/b/a Cambridge Health Alliance (the "Alliance"), which comprise the statements of net assets as of June 30, 2014 and 2013, the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2014.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

PricewaterhouseCoopers LLP

December 5, 2014



**Independent Auditor's Report 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

Report on Compliance for Each Major Federal Program

We have audited Cambridge Public Health Commission's d/b/a Cambridge Health Alliance (the "Alliance"), a component of the City of Cambridge of Massachusetts compliance 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 the Alliance's major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Alliance's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Alliance's compliance.



Opinion on Each Major Federal Program

In our opinion, the Alliance complied, in all material respects, with the types of compliance 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

The Alliance's response to the noncompliance findings identified in our audit is described in the accompanying Management's Views and Corrective Action Plan. The Alliance's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Alliance is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Alliance's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-001, which we consider to be significant deficiencies. The Alliance's response to the internal control over compliance findings identified in our audit is described in the accompanying Management's Views and Corrective Action Plan. The Alliance's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

December 5, 2014

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, 2014

I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal Control over Financial Reporting:

| | | |
|---|---------|---|
| Material weakness identified? | ___ Yes | ___ <input checked="" type="checkbox"/> No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | ___ Yes | ___ <input checked="" type="checkbox"/> None Reported |
| Noncompliance which is material to financial statements. | ___ Yes | ___ <input checked="" type="checkbox"/> No |

Federal Awards

Internal control over major programs:

| | | |
|---|---|--|
| Material weakness(es) identified? | ___ Yes | ___ <input checked="" type="checkbox"/> No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | ___ <input checked="" type="checkbox"/> Yes | ___ None Reported |

Type of auditors report issued on compliance for major programs: Unmodified

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 & Development Cluster |
| 93.918 | Grants to provide outpatient early intervention services with respect to HIV disease |
| 93.940 | HIV Prevention ACT – Healthy Department Based |
| 93.074 | Hospital Preparedness Program (HPP) and Public Health Emergency Prepared (PHEP) aligned cooperative agreements |
| 93.283 | Centers for Disease Control and Prevention – Investigations and Technical Assistance |

Dollar threshold for Type A and Type B programs: \$300,000

Audit qualifies as low-risk auditee? ___ Yes ___ No

II. Financial Statement Findings

None noted.

Cambridge Health Alliance
 (A Component Unit of the City of Cambridge, Massachusetts)
Schedule of Federal Award Findings and Questioned Costs
Year Ended June 30, 2014

III. Federal Award Findings and Questioned Costs

Finding 2014-001: Conflict of Interest Statements

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

Through our testing, we noted that four out of seven conflict of interest statement selections selected for testing were, not appropriately completed in FY14. Per CHA's policy, conflict of interest statements must be completed by anyone identified as a key personnel who is working on a research and development program on an annual basis.

Recommendation

The Alliance should revise its current process for tracking and completing conflict of interest statements. OMB circular also states that the recipient shall maintain written standards of conduct governing the performance of its employees engaged in the selection, award or administration of contracts. We recommend the Alliance expand their current policy to cover all employees working on federal grants, not just those considered to be key personnel. We further recommend the Alliance establish an automated system for tracking, reminding, and monitoring the completion of conflict of interest statements on an annual basis. The Alliance should assign a person or a group to actively monitor the compliance requirement and adherence with the policies and procedures in place.

Management's Views and Corrective Action Plan

Refer to page 52 for management's views and corrective action plan.

Cambridge Health Alliance
(A Component Unit of the City of Cambridge, Massachusetts)
Summary Schedule of Prior Year Findings
Year Ended June 30, 2014

Status of Prior year Findings

There were no prior year findings that require an update.



Management's Views and Corrective Action Plan

Finding 2014-1: Conflict of Interest Statements

Management will review current policies and revise the policies to specifically include provisions for employees, officers or agents who are engaged in the award or administration of contracts supported by Federal funds.

Management will revise existing procedures for identifying, monitoring and resolving potential conflicts of interest to insure no employee, officer or agent participates in the selection, award or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved.

Management is in the process of implementing a software solution to track required disclosure statements. The software stores the list of persons required to submit disclosure statements, generates reminders, stores the disclosure statements and includes robust reporting tools.

Jill Batty
Sr. V.P. of Finance/CFO
Cambridge Health Alliance
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