CAPE COD HEALTHCARE

Michael L. Connors, C.P.A.
Senior Vice President & Chief Financial Officer

July 17, 2013

To: Federal Audit Clearing House and our Federal funding agencies:

We previously filed on April 11, 2013 our fiscal 2012 A-133 report. Subsequent to the filing we were reminded by the Federal Clearinghouse that our fiscal 2011 A-133 report had not yet been submitted. The 2011 A-133 report had been signed off by PwC but the missing submission by CCHC was an oversight on our part. Accordingly we have since filed our fiscal 2011 A-133 report and the related Data Collection Form on July 11, 2013.

We are now attaching to this letter a revised fiscal 2012 A-133 report and Data Collection Form. The 2012 A-133 report and Data Collection Form have been revised to reflect CCHC's designation as a high risk auditee as a result of the late fiscal 2011 filing. This change in designation did not require that additional programs be audited in 2012 to meet the high risk auditee required audit coverage threshold.

Please call Patti Eldridge (508)957-8509, if you have any questions.

Sincerely,

M.L. Connors

Senior V.P. & CFO

Cape Cod Healthcare Financial Services

cc PwC

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Cape Cod Healthcare, Inc. and Affiliates

Report on Federal Awards in Accordance with OMB Circular A-133
September 30, 2012
EIN: 22-2600704

Cape Cod Healthcare, Inc. and Affiliates
Index
September 30, 2012

Page(s)

Part I - Financial Statements and Schedule of Expenditures of Federal Awards

Part II - Reports on Compliance and Internal Controls

Part III - Findings

Part I

Financial Statements and Schedule of Expenditures of Federal Awards

Report of Independent Auditors

To the Board of Trustees of
Cape Cod Healthcare, Inc. and Affiliates

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of Cape Cod Healthcare, Inc. and Affiliates ("Healthcare") as of September 30, 2012 and 2011, and the results of their operations, their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Healthcare's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of Healthcare's statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013, on our consideration of Healthcare's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended September 30, 2012. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2012 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

January 9, 2013

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
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Cape Cod Healthcare, Inc. and Affiliates
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 44,379,167	$ 41,287,572
Short-term investments	20,240,710	17,190,501
Patient accounts receivable, less allowance for doubtful accounts of $20,225,000 and $18,347,000 in 2012 in 2011, respectively	71,640,492	63,139,375
Current portion of pledges receivable, net	4,271,854	7,268,247
Other receivables, net	8,877,583	7,518,599
Estimated settlements with third-party payors	2,860,584	1,031,731
Current portion of funds whose use is limited or restricted	3,177,636	7,820,340
Supplies	8,512,006	8,896,670
Prepaid expenses and other current assets	5,826,985	5,430,769
Total current assets	169,787,017	159,583,804
Long-term investments	213,528,876	169,715,265
Funds whose use is limited or restricted	48,018,175	48,317,282
Property and equipment, net	282,170,301	263,819,106
Deferred financing costs, net	4,203,775	5,411,205
Pledges receivable, net of current portion	4,616,746	5,690,915
Goodwill	7,978,952	7,980,353
Other assets	17,642,119	16,477,736
Total assets	$ 747,945,961	$ 676,995,666
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt and capital lease obligations	$ 8,860,131	$ 8,831,697
Accounts payable and accrued expenses	97,964,958	87,192,475
Estimated settlements with third-party payors	21,508,322	18,569,697
Borrowings under line of credit	-	3,450,000
Other current liabilities	487,399	670,495
Total current liabilities	128,820,810	118,714,364
Interest rate swaps	4,266,127	4,041,228
Other liabilities	23,695,843	25,053,075
Long-term debt and capital lease obligations, net of current portion	152,572,602	162,609,868
Total liabilities	309,355,382	310,418,535
Net assets		
Unrestricted	382,000,166	301,028,720
Temporarily restricted	28,607,129	39,625,081
Permanently restricted	27,983,284	25,923,330
Total net assets	438,590,579	366,577,131
Total liabilities and net assets	$ 747,945,961	$ 676,995,666

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

Cape Cod Healthcare, Inc. and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2012 and 2011

	2012	2011
Revenue		
Net patient service revenue	$ 683,410,672	$ 630,621,712
Less: provision for bad debts	20,390,401	14,725,672
Net patient service revenue after provision for bad debts	663,020,271	615,896,040
Other revenue	15,639,116	16,128,447
Net assets released from restrictions used for operations	1,581,375	1,520,542
Total revenue	680,240,762	633,545,029
Expenses		
Salaries and wages	259,184,646	249,564,821
Physicians' salaries and fees	53,200,585	46,058,543
Employee benefits	98,134,490	90,161,989
Supplies and other	191,012,896	179,014,872
Depreciation and amortization	25,753,632	24,259,921
Interest	8,044,539	9,054,870
Total expenses	635,330,788	598,115,016
Income from operations	44,909,974	35,430,013
Nonoperating gains (losses)		
Investment income	2,224,386	1,679,206
Realized gains on investments, net	4,085,689	802,361
Gifts and bequests	4,085,041	4,274,295
Fundraising expense	(1,407,846)	(1,060,710)
Change in fair value of interest rate swaps	(224,899)	(133,272)
Other nonoperating losses	(731,747)	(407,500)
Total nonoperating gains, net	8,030,624	5,154,380
Excess of revenue and gains over expenses and losses	52,940,598	40,584,393
Change in net unrealized gains (losses) on investments	13,040,760	(5,444,964)
Net assets released from restrictions used for purchase of property and equipment	14,522,987	5,683,479
Other	467,101	182,742
Increase in unrestricted net assets	$ 80,971,446	$ 41,005,650

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

Cape Cod Healthcare, Inc. and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess of revenue and gains over expenses and losses	$ 52,940,598	$ 40,584,393
Change in net unrealized gains (losses) on investments	13,040,760	(5,444,964)
Net assets released from restrictions used for purchase of property and equipment	14,522,987	5,683,479
Other	467,101	182,742
Increase in unrestricted net assets	80,971,446	41,005,650
Temporarily restricted net assets		
Contributions	2,701,465	5,123,413
Investment income	108,141	87,112
Net realized and change in net unrealized gains (losses) on investments	1,616,438	(301,996)
Net assets released from restrictions	(16,104,362)	(7,204,021)
Change in value of split interest agreements	660,366	(824,059)
Decrease in temporarily restricted net assets	(11,017,952)	(3,119,551)
Permanently restricted net assets		
Contributions	435,091	361,842
Change in value of beneficial interest in perpetual trusts	1,587,607	(968,950)
Change in value of split interest agreements	37,256	(32,748)
Increase (decrease) in permanently restricted net assets	2,059,954	(639,856)
Increase in net assets	72,013,448	37,246,243
Net assets		
Beginning of year	366,577,131	329,330,888
End of year	$ 438,590,579	$ 366,577,131

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

Cape Cod Healthcare, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Increase in net assets	$ 72,013,448	$ 37,246,243
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in fair value of interest rate swaps	224,899	133,272
Loss on disposal of property and equipment	(327,478)	-
Receipt of noncash contributions	-	(192,960)
Loss on extinguishment of debt	1,599,033	-
Depreciation and amortization	25,753,632	24,259,921
Restricted contributions received and investment income	(8,713,483)	(6,380,879)
Net realized and change in net unrealized (losses) gains	(21,028,116)	6,770,356
Provision for bad debts	20,390,401	14,725,672
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable	(28,891,518)	(22,847,636)
Pledges and other receivables	2,085,743	(1,387,424)
Supplies	384,664	(495,172)
Prepaid expenses and other current assets	534,455	(730,470)
Other assets	(530,078)	(2,169,547)
Accounts payable and accrued expenses	9,921,720	10,537,465
Estimated settlements with third-party payors	1,109,772	13,450,419
Other liabilities	(1,540,328)	2,934,163
Net cash provided by operating activities	72,986,766	75,853,423
Cash flows from investing activities		
Acquisitions of businesses, net of cash acquired	-	(2,136,990)
Additions to property and equipment	(42,119,491)	(37,958,309)
Disposals of property and equipment	769,845	-
Purchase of investments	(193,588,860)	(194,356,408)
Proceeds from sale of investments	171,129,993	173,442,718
Net cash used in investing activities	(63,808,513)	(61,008,989)
Cash flows from financing activities		
Use of proceeds to refinance debt	(59,965,000)	(5,800,000)
Proceeds from issuance of debt	63,463,726	5,800,000
Repayment of long-term debt and capital leases	(14,253,313)	(9,897,669)
Repayment of line of credit	(3,450,000)	(3,450,000)
Restricted contributions received and investment income	8,713,483	6,380,879
Payments of debt issuance costs	(595,554)	-
Net cash used in financing activities	(6,086,658)	(6,966,790)
Net increase in cash and cash equivalents	3,091,595	7,877,644
Cash and cash equivalents		
Beginning of year	41,287,572	33,409,928
End of year	$ 44,379,167	$ 41,287,572
Supplemental disclosure of noncash activities		
Assets acquired through capital leases	$ 296,113	$ 2,239,936
Purchases of property and equipment included in accounts payable	926,256	75,492
Cash paid for interest	8,717,521	9,741,552

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

1. Organization

The consolidated financial statements include the accounts of Cape Cod Healthcare, Inc. ("CCHC") and its controlled affiliates (collectively, "Healthcare"). Transactions and balances between entities have been eliminated in consolidation. The following is a summary of affiliated organizations which are controlled by Healthcare and included in the consolidated financial statements:

Cape Cod Healthcare, Inc.	A not-for-profit corporation that serves as the parent company of various entities providing health care services to the population of Cape Cod, Massachusetts.
Cape Cod Hospital ("CCH")	A not-for-profit acute care hospital located in Hyannis, Massachusetts.
Cape Cod Healthcare Foundation, Inc. ("CCHC Foundation")	A not-for-profit corporation organized to provide development and fundraising support to Healthcare.
Cape and Islands Health Services II, Inc. ("Cape & Islands")	A not-for-profit corporation organized to provide various nonhospital health care services.
Medical Affiliates of Cape Cod, Inc. ("MACC")	A not-for-profit medical group practice.
Visiting Nurse Association of Cape Cod, ("VNA of Cape Cod")	A not-for-profit provider of home health services.
Cape Cod Human Services, Inc. ("Human Services")	A not-for-profit provider of outpatient mental health services.
Falmouth Hospital Association, Inc. ("Falmouth Hospital")	A not-for-profit acute care hospital located in Falmouth, Massachusetts.
Falmouth Assisted Living, Inc., d/b/a Heritage at Falmouth ("Assisted Living")	A not-for-profit corporation that owns an assisted living facility.
JML Care Center, Inc. ("JML Center")	A not-for-profit skilled nursing and rehabilitation facility.
Cape Health Insurance Company ("CHICO")	A captive insurance company that provides medical professional and general liability insurance to Healthcare.
Cape Cod Hospital Medical Office Building ("MOB")	A not-for-profit provider of leased and subleased space to Cape Cod Hospital and related affiliations.
Cape Cod Imaging Services, LLC	A Massachusetts Limited Liability Company, formed by Cape Cod Hospital and Shields MRI & Imaging Center of Cape Cod, to facilitate and enhance the provision of MRI and CT imaging services to persons in the Service Area.

Assets of individual organizations within the consolidated group may not be available to satisfy the obligations of other members of the consolidated group.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Revenue Recognition

Healthcare has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations ("HMOs"), and preferred provider organizations. The basis for payment to Healthcare 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 the 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. During 2012 and 2011, changes in prior year estimates increased net patient service revenue by approximately $4,144,000 and $1,733,000, respectively.

Free care services are partially reimbursed to acute care hospitals through the statewide Health Safety Net (HSN, formerly known as the Uncompensated Care Pool) established by the Massachusetts Health Care Reform Law (Chapter 58 of the Acts of 2006). A portion of the funding for the HSN is paid by hospitals through a statewide hospital assessment levied each year by the Massachusetts Legislature. All acute care hospitals in the state are assessed their share of this total statewide hospital assessment amount based on each hospital's charges for private sector payors. Hospitals are reimbursed for free care based on claims for eligible patients that are submitted to, and adjudicated, by the HSN. Rates of payment are based on Medicare rates and payment policies.

Healthcare has recorded its gross obligation to HSN as a deduction from net patient service revenue of $2,890,000 and $3,067,000 for the years ended September 30, 2012 and 2011, respectively, in the consolidated statements of operations. Reimbursement for uncompensated care has been allocated to bad debts and free care based on hospital-specific experience. The reimbursement allocated for bad debts is recorded as a reduction of the uncompensated care pool assessment, while the reimbursement allocated for charity care is recorded as net patient service revenue.

Other Revenue

Other revenue consists principally of investment income, grant revenue, rental income and revenue from nonpatient-related services.

Use of Estimates

The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Significant estimates are made in the areas of patient accounts receivable, investments, goodwill, interest rate swaps, accrued expenses and estimated settlements with third-party payors.

Excess of Revenue and Gains Over Expenses and Losses

The consolidated statements of operations include excess of revenue and gains over expenses and losses. Changes in unrestricted net assets which are excluded from excess of revenue and gains over expenses and losses, consistent with industry practice, include the changes in unrealized gains and losses on investments, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets) and net assets released from restriction used for purchase of property and equipment.

Consolidated Statements of Operations

In the accompanying consolidated statements of operations, transactions deemed by management to be ongoing to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Endowment

In October 2008, Healthcare adopted guidance relating to Endowments of Not-for-Profit Organizations, which requires Healthcare to disclose certain information about its endowment including net asset classification, composition, spending policies, and related investment policies. Healthcare has an endowment spending policy, as approved by the Board of Trustees, which aims to preserve the purchasing power of the endowment. Under this policy, 4% of a three-year moving average of market values can be expended for operations. The long-term performance objective of the endowment portfolio is to attain an average annual total return that exceeds Healthcare's spending rate plus inflation within acceptable levels of risk over a full market cycle. To achieve its long-term rate of return objectives, Healthcare relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Healthcare has been limited by donors to a specific time period or purpose. Such funds are generally restricted for health care services and the purchase of property and equipment. In accordance with Healthcare policies and the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the Commonwealth of Massachusetts, Healthcare includes accumulated realized and unrealized net gains on investments of permanently restricted net assets, which are available for Board appropriation, within temporarily restricted net assets. Temporarily restricted net assets also include approximately $8,889,000 and $12,959,000 at September 30, 2012 and 2011, respectively, related to unconditional promises to give with payments due in future periods, and other funds whose use has been limited by donors. Permanently restricted net assets at September 30, 2012 and 2011, include only the historical dollar amount of gifts which are required by donors to be held in perpetuity, the income from which is expendable to support indigent care, health care services, purchases of property and equipment, and Healthcare's beneficial interest in a perpetual trust. The earnings from the perpetual trust are available for health care services and are recorded when earned.

Healthcare has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. State law allows the Board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering Healthcare's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price-level trends, and general economic conditions. Amounts appropriated during the years ended September 30, 2012 and 2011, amounted to approximately $691,000 and $686,000, respectively. These amounts are included in net assets released from restrictions in the accompanying consolidated financial statements.

Gifts
Unconditional promises to give cash and other assets to Healthcare are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are met. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted gifts in the accompanying financial statements.

Cash and Cash Equivalents
Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of purchase, excluding funds whose use is limited or restricted.

Funds Whose Use is Limited or Restricted
Funds whose use is limited or restricted include funds held by trustees under bond indenture agreements and funds contributed by donors for specific purposes and permanent endowment funds.

Derivative Instruments
All derivatives are recognized on the balance sheet at fair value. Healthcare designates at inception whether the derivative contract is considered hedging or nonhedging in accordance with existing accounting guidance for derivative instruments and hedging activities. For those instruments designated as hedges, Healthcare formally documents at inception all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. Healthcare’s derivatives are used to minimize the variability in cash flows of interest-bearing liabilities caused by changes in interest rates. Changes in the fair value of derivatives designated for hedging activities that are highly effective are recorded as a component of other changes in net assets. Hedge ineffectiveness, if any, is recorded in excess of revenue and gains over expenses and losses. For those instruments not designated as hedges, changes in the fair value of derivatives are recorded in nonoperating gains (losses).

Patient Accounts Receivable
Healthcare receives payments for services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care payors, commercial insurance companies, and patients. Patient accounts receivable are reported net of contractual allowances and reserves for denials, uncompensated care, and doubtful accounts. The level of reserves is based upon management’s assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental and private employer health care coverage and other collection indicators.

Investments and Investment Income
Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the accompanying consolidated balance sheets. Investments for which a market value is not readily determinable, including investments in collective trusts, limited liability companies, limited partnerships and private equity partnerships, are either recorded at cost or at their reported fair value based on information provided by the trust manager, and are reviewed by management for reasonableness and approved by the Investment Committee. Investments held to satisfy current liabilities, generally understood to be those liabilities to be paid within one year, are classified as current and investments intended to be held greater than one year are classified as long term. Investment income or loss (including realized gains and losses on investments, interest and

dividends) is included in the excess of revenue and gains over expenses and losses, unless the income is restricted by donor or law. The change in unrealized gains and losses on investments is excluded from the excess of revenue and gains over expenses and losses. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on funds whose use is limited for capital purchases are generally reported as other revenue or as a change in temporarily restricted net assets. All other unrestricted investment income and unrestricted realized gains and losses on investments are reported as nonoperating gains (losses).

A write-down in the cost basis of investments is recorded when the decline in fair value of investments below cost has been judged to be other-than-temporary. Depending on any donor-imposed restrictions on the investments, the amount of the write-down is reported as a realized loss in either temporarily restricted net assets or in excess of revenue and gains over expenses and losses as a component of income from investments, with no adjustment to the cost basis for subsequent recoveries of fair value.

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 consolidated balance sheets and consolidated statements of operations and changes in net assets. When applicable, fair value is based on quoted market prices.

Supplies

Supplies are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Gifts of long-lived assets such as land, buildings, or equipment are reported at fair value at the date of the contribution as unrestricted support and are excluded from the excess of revenue and gains over expenses and losses, unless explicit donor stipulations specify how the assets are to be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the related assets ranging from three to forty years. Equipment leased under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included within depreciation expense.

Goodwill

As of October 1, 2010, Healthcare adopted Accounting Standard Codification (ASC 350), *Goodwill and Other Intangible Assets*, which requires goodwill to be tested annually for impairment, including a test for historical amounts. In addition, under the new guidance, goodwill is no longer amortized. Healthcare's goodwill primarily relates to the acquisitions of Cape Cod Cardiology, LLC in 2009 and Bayside Surgical Center in 2011. Goodwill is recorded when the fair value of the assets acquired is less than the fair value of the liabilities assumed plus consideration transferred, if any, as detailed under ASC 958, *Not-for-Profit Entities: Mergers and Acquisitions*, effective in 2011. Healthcare assesses goodwill at least annually for impairment or more frequently if certain events or circumstances warrant and recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value. There was no impairment charge recorded for the years ended September 30, 2012 and 2011.

Asset Retirement Obligations

Asset retirement obligations reported in accounts payable and accrued expenses are legal obligations associated with the retirement of long-lived assets. The liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Healthcare records changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Healthcare reduces the liabilities when the related obligations are settled.

Costs of Borrowing

Interest cost incurred on borrowed funds, net of interest income earned on such funds, during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets. There was no interest cost capitalized for the years ended September 30, 2012 and 2011.

Deferred Financing Costs

Deferred financing costs consist of legal, financing, and other related costs incurred in connection with the issuance of outstanding bonds. Deferred financing costs are being amortized using the straight-line method, which approximates the effective-interest method, over the term of the bonds. Original issue discount, which is recorded as a reduction of the long-term debt, is being amortized using the straight-line method, which approximates the effective-interest method, over the term of the related bonds.

Professional Liability Costs

Healthcare is self-insured for certain professional liability claims. Estimated losses and claims are accrued as incurred. Healthcare has provided for the cost of claims paid during the current period, as well as estimates of the liability for claims incurred but not yet paid, in the accompanying consolidated financial statements. The liability for professional liability losses and loss-adjustment expenses includes an amount, based on an independent actuarial study discounted at a rate of 3%, for losses determined from loss reports, individual cases, and based on past experience, adjusted for the risk of adverse deviation. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Income Taxes

CCHC and its affiliates, other than MOB and CHICO, have been recognized by the Internal Revenue Service as tax-exempt nonprofit organizations under Section 501(c)(3) of the Internal Revenue Code (the “Code”), and accordingly, are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. An income tax provision has not been provided on the operating results of the MOB due to current-period operating losses and the existence of net operating loss carryforwards.

CHICO has received an undertaking from the Cayman Islands Government exempting it from taxes on income until June 8, 2024.

Cape Cod Imaging Services, LLC is a limited liability corporation. As such, for tax purposes, Cape Cod Imaging Services is treated as a division of Healthcare. No provision for federal income taxes has been recorded in the accompanying consolidated financial statements for this organization.

Fair Value Measurements

Healthcare follows accounting guidance which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The estimated fair value amounts reported in the accompanying consolidated financial statements and related notes have been determined by Healthcare using available market information and valuation methodologies described below. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that Healthcare could realize in a current market exchange. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

Recently Issued Accounting Pronouncements

In August 2010, the FASB issued *Health Care Entities: Measuring Charity Care for Disclosure* (ASU 2010-23), which clarified the disclosure of charity care provided by healthcare organizations, providing that such disclosure should be measured using cost and that related reimbursements recorded should also be separately disclosed. Healthcare adopted the provisions of ASU 2010-23 as of October 1, 2011.

In August 2010, the FASB amended the ASC to extend the guidance on netting receivables and payables in ASC 2010-20, *Balance Sheet: Offsetting*, to health care entities (ASC 2010-24 *Presentation of Insurance Claims and Related Insurance Recoveries*), prohibiting offsetting of conditional or unconditional liabilities with anticipated insurance recoveries. Healthcare adopted the provisions of ASU 2010-24 as of October 1, 2011. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In July 2011, the FASB issued *Healthcare Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. Under the new guidance, bad debts relating to patient service revenue will be separately disclosed in the statement of operations and reported as a component of net patient service revenue. Bad debts associated with activities other than patient service revenue will continue to be reported as an operating expense. For Healthcare, ASU 2011-7 would be effective for fiscal years after December 15, 2011, but early adoption is permitted. Healthcare elected to adopt ASU 2011-7 as of October 1, 2011 and changed its reporting of the provision for bad debts. Accordingly, certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 presentation. The previously reported provision for bad debts of $14,726,000 has been reclassified from operating expenses to a reduction from net patient service revenue.

Revision

In 2012, CCHC revised certain financial statement line items relating to the classification of donor assets restricted for the construction of a new building, which were released prior to the building being placed into service in 2012. As a result, CCHC increased temporarily restricted net assets by $6,945,000 and reduced unrestricted net assets by the same amount as of September 30, 2011. Management has determined that the impact of these corrections was not material to the financial statements of any prior period. The effect of the revision on the 2011 financial statements is as follows:

September 30, 2011 Financial Statements	As Originally Presented	Revision	Revised
Balance Sheet			
Unrestricted	$ 307,973,272	$ (6,944,552)	$ 301,028,720
Temporarily Restricted	32,680,529	6,944,552	39,625,081
Statement of Operations			
Net assets released from restriction used for purchase of property and equipment	9,623,220	(3,939,741)	5,683,479
Increase in unrestricted net assets	44,945,391	(3,939,741)	41,005,650
Statement of Changes in Net Assets			
Increase in unrestricted net assets	44,945,391	(3,939,741)	41,005,650
Decrease in temporarily restricted net assets	(7,059,292)	3,939,741	(3,119,551)

3. Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Healthcare analyzes its past history and identifies trends for each of its major categories of revenue (inpatient, outpatient, and professional) to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major categories of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Throughout the year, Healthcare, after all reasonable collection efforts have been exhausted, will write off the difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected against the allowance for doubtful accounts. In addition to the review of the categories of revenue, management monitors the write offs against established allowances as of a point in time to determine the appropriateness of the underlying assumptions used in estimating the allowance for doubtful accounts.

Accounts receivable, prior to adjustment for doubtful accounts, is summarized as follows at September 20, 2012 and 2011:

	2012	2011
Receivables		
Patients	$ 8,777,143	$ 8,806,115
Third-party payers	83,088,710	72,679,986
	91,865,853	81,486,101
	(20,225,361)	(18,346,726)
	$ 71,640,492	$ 63,139,375

Patient related bad debt is reflected as a reduction in net patient service revenue on the Statements of Operations.

Net patient service revenue before the provision for bad debts for the years ended September 30, 2012 and 2011 is summarized as follows:

	2012	2011
Net patient service revenue		
Patients	$ 28,535,155	$ 27,298,279
Third-party payers	654,875,517	603,323,433
	$ 683,410,672	$ 630,621,712

4. Charity Care

Healthcare provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Healthcare does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net revenue. The charity care policy is based on the poverty income guidelines established by the Massachusetts Division of Healthcare Finance and Policy. If a patient is ineligible because his or her income exceeds the eligibility guidelines, any uncollectible accounts receivable balance is written off to bad debt. During 2012 and 2011, Healthcare provided approximately $6,174,000 and $6,514,000 in charity care, respectively. The estimated costs of providing charity care services are based on data derived from Healthcare's ratio of cost to charges. During 2012 and 2011, Healthcare received approximately $5,096,000 and $5,764,000, respectively, from the Health Safety Net Trust Fund (HSNTF) for reimbursement of charity care.

5. Property and Equipment

Property and equipment at September 30, 2012 and 2011 consisted of the following:

	2012	2011
Land	$ 20,354,732	$ 19,663,086
Land improvements	11,681,570	11,166,541
Buildings and improvements	297,718,606	276,923,403
Fixed equipment	45,609,058	47,570,876
Major movable equipment	185,910,845	191,242,093
Assets under capital leases	11,714,849	18,433,645
	572,989,660	564,999,644
Accumulated depreciation and amortization	(315,443,278)	(325,297,099)
Property and equipment, net	257,546,382	239,702,545
Construction in progress	24,623,919	24,116,561
	$ 282,170,301	$ 263,819,106

At September 30, 2012 and 2011, Healthcare had commitments totaling approximately $7,011,000 and $2,957,000, respectively, related to construction projects. Depreciation expense for the years ended September 30, 2012 and 2011 was $25,099,000 and $24,088,000, respectively. In addition, for the year ended September 30, 2012, Healthcare wrote off $34,854,000 in fully depreciated assets no longer in use.

6. Investments

Investments and investments limited as to use are reported at either fair value or at cost in accordance with the appropriate guidance for healthcare organizations. At September 30, 2012 and 2011, the composition of these investments is as follows:

		September 30, 2012 Carrying Value		
	Cost Basis	At Fair Value	At Cost	Total
Cash and temporary investments	$ 13,380,396	$ 13,380,396	$ -	$ 13,380,396
Mutual funds	143,740,092	152,896,389	-	152,896,389
U.S. government securities	13,056,101	13,370,065	-	13,370,065
Common and preferred stock	13,003	22,335	-	22,335
Private equity partnerships	911,400	-	911,400	911,400
Pooled income fund	496,287	496,666	-	496,666
Collective trusts	30,668,494	34,455,255	-	34,455,255
Limited liability companies and limited partnerships	53,194,755	-	53,194,755	53,194,755
	255,460,528	214,621,106	54,106,155	268,727,261
Beneficial interest held by third party	-	7,051,247	-	7,051,247
Perpetual trusts held by third party	-	9,186,889	-	9,186,889
	$255,460,528	$230,859,242	$ 54,106,155	$284,965,397

		September 30, 2011 Carrying Value		
	Cost Basis	At Fair Value	At Cost	Total
Cash and temporary investments	$ 29,460,341	$ 29,453,433	$ -	$ 29,453,433
Mutual funds	112,295,512	110,275,153	-	110,275,153
U.S. government securities	13,087,764	13,459,301	-	13,459,301
Common and preferred stock	13,003	19,015	-	19,015
Private equity partnerships	671,400	-	671,400	671,400
Pooled income fund	443,963	461,466	-	461,466
Collective trusts	35,199,424	34,809,750	-	34,809,750
Limited liability companies and limited partnerships	38,259,664	-	38,259,664	38,259,664
	229,431,071	188,478,118	38,931,064	227,409,182
Beneficial interest lead trust	-	983,676	-	983,676
Beneficial interest held by third party	-	6,493,739	-	6,493,739
Perpetual trusts held by third party	-	8,156,791	-	8,156,791
	$229,431,071	$204,112,324	$ 38,931,064	$243,043,388

For the limited liability companies and the limited partnerships reflected in the balance sheet at cost, the difference between the value reported by the investment managers and the cost for these investments was $4,777,000 and $1,451,000 as of September 30, 2012 and 2011, respectively.

The fair value and unrealized depreciation of investments with a fair value less than cost, that are not deemed to be other-than-temporarily impaired was $146,000 and $0 at September 30, 2012 and 2011. At September 30, 2012, the investments with a fair value less than cost were as follows:

	12 Months or Greater	
	Fair Value	**Unrealized Depreciation**
Mutual funds	$ 3,428,126	$ (145,586)

At September 30, 2012 and 2011, investments are reported in the accompanying consolidated balance sheets as follows:

	2012	**2011**
Short-term investments	$ 20,240,710	$ 17,190,501
Funds whose use is limited or restricted		
Current portion	3,177,636	7,820,340
Noncurrent portion	48,018,175	48,317,282
Long-term investments	213,528,876	169,715,265
	$ 284,965,397	$ 243,043,388

For the years ended September 30, 2012 and 2011, investment income, gains, and losses consisted of the following:

	2012	**2011**
Investment return recorded in unrestricted net assets		
Nonoperating gains and losses		
Investment income	$ 2,224,386	$ 1,679,206
Net realized gains on investments, net	4,085,689	1,240,538
	6,310,075	2,919,744
Other changes in net unrealized gains (losses) on investments	13,040,760	(5,444,964)
Total investment return recorded within unrestricted net assets	19,350,835	(2,525,220)
Investment return recorded in temporarily restricted net assets		
Investment income	108,141	87,112
Net realized and change in net unrealized gains (losses) on investments	1,553,210	(318,993)
Change in value of split interest agreements	63,228	16,997
Total investment return recorded within temporarily restricted net assets	1,724,579	(214,884)
Investment return recorded in permanently restricted net assets		
Change in value of beneficial interest in perpetual trusts	1,587,607	(968,950)
Total investment return recorded within permanently restricted net assets	1,587,607	(968,950)
Total investment return	$ 22,663,021	$ (3,709,054)

Securities with unrealized depreciation are reviewed each quarter to determine whether these investments are other-than-temporarily impaired. Marketable investments with fair value below cost are considered to be other-than-temporarily-impaired and a realized loss is recorded if management has outsourced the ability to purchase and sell investments to Healthcare's fund manager. All other investments are subject to further review, which considers factors including the anticipated holding period for the investment, extent and duration of below cost valuation, and the nature of the underlying holdings as applicable. A similar writedown is recorded when the impairment on these investments has been judged to be other-than-temporary.

Healthcare recorded realized losses of approximately $725,000 and $0 associated with certain marketable investments for which the fair value was below cost as of September 30, 2012 and September 30, 2011, respectively. No other unrealized losses were considered to be other-than-temporary.

Funds whose use is limited consist of the following:

	September 30, 2012		September 30, 2011	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Internally designated funds	$ -	$ -	$ 492,412	$ -
Externally designated funds				
Funds whose use is limited	3,177,636	10,495,015	7,327,928	13,952,511
Temporarily restricted investments	-	9,892,400	-	8,876,929
Permanently restricted investments	-	20,579,513	-	18,994,103
Beneficial interest held by third party	-	7,051,247	-	6,493,739
	3,177,636	48,018,175	7,327,928	48,317,282
	$ 3,177,636	$ 48,018,175	$ 7,820,340	$ 48,317,282

As of September 30, 2012 and 2011, Healthcare has outstanding commitments of approximately $458,000 and $810,000, respectively, to fund certain private equity and real asset funds.

7. Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date (also referred to as “exit price”). Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, is permitted.

Fair Value Hierarchy

A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity’s own assumptions about how market participants would value an asset or liability based on the best information available. The fair value hierarchy requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In addition, for hierarchy classification purposes, the reporting entity should not look through the form of an investment to the nature of the underlying securities held by an investee.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by Healthcare for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment.

Level 2 Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 Valuations using unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Cash and Temporary Investments
Cash and temporary investments include short-term, highly liquid investments and the fair values are based on quoted market prices.

Mutual Funds, U.S. Government Securities, Common and Preferred Stock, and Pooled Income Fund
The fair values of mutual funds, estimated fair values of U.S. government securities, the fair values of common and preferred stock, and the fair value of the pooled income fund are based on quoted market prices for identical assets in active markets.

Collective Trusts
The estimated fair values of collective trusts are determined based upon the net asset value provided by the fund managers and assessed for reasonableness by management. Such information is generally based on Healthcare's pro-rata interest in the net assets of the underlying investments.

Beneficial Interest Lead Trust
Charitable lead trust assets are initially valued based on estimated future payments discounted to a single present value using current market rates at the date of the contribution, matched to the payment period of the agreement.

Beneficial Interest Held by Third Party
Charitable remainder trust assets, where Healthcare does not serve as trustee, are initially valued using the current fair value of the underlying assets, using observable market inputs based on its beneficial interest in the trust, discounted to a single present value using current market rates at the date of the contribution.

Perpetual Trusts Held by Third Party
The estimated fair values of Healthcare's perpetual trusts are determined based upon information provided by the trustees and assessed for reasonableness by management. Such information is generally based on Healthcare's pro-rata interest in the net assets of the underlying investments, which approximates fair value.

Interest Rate Swaps
The valuation of interest rate swaps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market based inputs, including interest rate curves and implied volatilities.

The following tables summarize fair value measurements at September 30, 2012 and 2011 for financial assets and liabilities measured at fair value on a recurring basis:

	2012			
	Quoted Prices in Active Markets for Identical Items (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value at September 30, 2012**
Assets				
Investments				
Cash and temporary investments	$ 13,380,396	$ -	$ -	$ 13,380,396
Mutual funds	133,607,865	19,288,524	-	152,896,389
U.S. government securities	13,370,065	-	-	13,370,065
Common and preferred stock	22,335	-	-	22,335
Pooled income fund	496,666	-	-	496,666
Collective trusts	-	34,455,255	-	34,455,255
Total investments, fair value	160,877,327	53,743,779	-	214,621,106
Beneficial interest held by third party	-	-	7,051,247	7,051,247
Perpetual trusts held by third party	-	-	9,186,889	9,186,889
Total assets, fair value	$ 160,877,327	$ 53,743,779	$ 16,238,136	$ 230,859,242
Liabilities				
Interest rate swaps	$ -	$ 4,266,127	$ -	$ 4,266,127
Total liabilities, fair value	$ -	$ 4,266,127	$ -	$ 4,266,127

	2011			
	Quoted Prices in Active Markets for Identical Items (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value at September 30, 2011**
Assets				
Investments				
Cash and temporary investments	$ 29,453,433	$ -	$ -	$ 29,453,433
Mutual funds	93,527,651	16,747,502	-	110,275,153
U.S. government securities	13,459,301	-	-	13,459,301
Common and preferred stock	19,015	-	-	19,015
Pooled income fund	461,466	-	-	461,466
Collective trusts	-	34,809,750	-	34,809,750
Total investments, fair value	136,920,866	51,557,252	-	188,478,118
Beneficial interest lead trust	-	-	983,676	983,676
Beneficial interest held by third party	-	-	6,493,739	6,493,739
Perpetual trusts held by third party	-	-	8,156,791	8,156,791
Total assets, fair value	$ 136,920,866	$ 51,557,252	$ 15,634,206	$ 204,112,324
Liabilities				
Interest rate swaps	$ -	$ 4,041,228	$ -	$ 4,041,228
Total liabilities, fair value	$ -	$ 4,041,228	$ -	$ 4,041,228

The following table is a rollforward of investments classified by Healthcare within Level 3 as defined previously for the year ended September 30, 2012 and 2011.

Balances at September 30, 2010	$17,118,637
Change in value of beneficial interest in perpetual trusts	(968,950)
Transfers	(515,481)
Balances at September 30, 2011	15,634,206
Change in value of beneficial interest in perpetual trusts	1,587,607
Distribution received from severance of lead trust	(500,000)
Reclassification to pledges receivable from severance of lead trust	(483,677)
Balances at September 30, 2012	$16,238,136

There were no significant transfers into or out of Levels 1 and 2 for the year ended September 30, 2012.

The following table summarizes all investments recorded at net asset value ("NAV") at September 30, 2012, categorized based on the risk and return characteristics of the investments, and excluding Level 1 investments based on their daily redemption feature.

	Fair Value	**Redemption Frequency**	**Redemption Notice Period**
Collective trusts	$ 34,455,255	Daily - Monthly	10 days
Equity mutual funds	7,369,788	Once a week	None
Bond mutual funds	11,918,736	Weekly	5 days
	$ 53,743,779		

8. Employee Retirement Plans

Healthcare sponsors several defined contribution plans which generally cover employees who have completed the minimum service requirements defined by the plans. The contributions vary by plan but generally approximate 2% of eligible wages. Certain of the plans allow for employee contributions which are matched by Healthcare up to certain limits. Pension expense under the defined contribution plans totaled approximately $8,880,000 and $8,642,000 in 2012 and 2011, respectively, and was recorded within employee benefits expense on the consolidated statements of operations.

9. Lines of Credit

Healthcare has a line of credit available that provides for advances of up to $10,000,000 for working capital needs. Amounts borrowed are due on demand and bear interest at the applicable LIBOR interest rate in effect at the time of the borrowing. Borrowings under the line of credit are guaranteed by the following affiliated entities: CCHC Foundation, CCH, Falmouth Hospital, JML Center, Human Services, and VNA of Cape Cod. There was $0 and $3,450,000 outstanding under this line-of-credit agreement at September 30, 2012 and 2011, respectively. The line is uncollateralized and expires on March 25, 2013.

10. Long-term Debt, Capital Leases and Interest Rate Swaps

Long-term debt at September 30, 2012 and 2011 consisted of the following:

Issue	2012 Rate	2011 Rate	Final Maturity	2012	2011
Massachusetts Health and Educational Facilities Authority ("HEFA") Revenue Bonds					
Fixed Rate					
Cape Cod Healthcare Obligated Group—Series B	n/a	5.0-5.45%	n/a	$ -	$ 12,108,746
Cape Cod Healthcare Obligated Group—Series C	3.0-5.25%	3.0-5.25%	2032	23,060,000	37,880,200
Cape Cod Healthcare Obligated Group—Series D	2.6-6.00%	2.6-6.00%	2036	59,585,000	61,020,000
Cape Cod Healthcare Obligated Group—Series 2012A	2.66%	n/a	2022	25,800,000	-
Variable Rate					
Falmouth Assisted Living, Inc.—Series A	n/a	1.17%	n/a	-	5,200,000
Cape Cod Healthcare Obligated Group —Series E	1.16%	1.57%	2022	27,477,333	32,594,578
Notes payable					
Cape Cod Hospital	3.65%	5.99%	2022	2,047,183	2,185,998
Cape Cod Healthcare Obligated Group	3.15-3.56%	3.56%	2018	10,625,361	5,783,808
Falmouth Hospital	5.96%	5.96%	2029	4,779,998	4,934,106
Cape Cod Healthcare (variable rate)	2.73%	3.27%	2020	2,900,403	3,274,649
Cape Cod Healthcare - HEFA Financing	n/a	3.38%	n/a	-	1,073,135
Capital Lease obligations	n/a	n/a		4,527,962	4,718,054
				160,803,240	170,773,274
Unamortized premium (original issue discount), net				629,493	668,291
Current portion				(8,860,131)	(8,831,697)
Total long-term debt				$152,572,602	$162,609,868

On December 23, 2004, the Cape Cod Healthcare Obligated Group issued $65,000,000 of Massachusetts HEFA Series D Variable Rate Demand Revenue Bonds (the “Series D Bonds”). The Series D Bonds were collateralized by a bond insurance policy issued by Assured Guaranty. Proceeds from the Series D Bonds were used to satisfy a number of capital improvements at CCH, including an inpatient bed tower and cardiac catheterization facilities.

On February 16, 2010, Healthcare converted the Series D Bonds from variable rate demand bonds to fixed rate bonds in the amount of $62,400,000. The fixed rate Series D Bonds continue to be collateralized by a bond insurance policy issued by Assured Guaranty.

On June 18, 2008, the Cape Cod Healthcare Obligated Group issued $36,710,000 of Massachusetts HEFA Series E Variable Rate Bonds (the “Series E Bonds”). The bond proceeds, net of issuance costs of $262,000, were used to refund the majority of a bridge loan Healthcare issued in March 2008 totaling $38,925,000. On February 12, 2009, the Series E Bonds were increased by $2,215,000 in order to repay the bridge loan that was outstanding as of September 30, 2008. The Series E Bonds are collateralized by a pledge of gross receipts and mortgages on the property and equipment of the core hospital campuses.

On January 12, 2012, Healthcare fully converted its Series E Variable Rate Bonds in the amount of $29,440,000 via a direct placement with a commercial lender. The direct placement is a LIBOR-based loan with a ten year term. The loan amount is fully amortized upon final maturity in 2022. Healthcare recorded a nonoperating loss on the extinguishment of debt of $574,000 related to this transaction.

On July 20, 2011, Healthcare entered into a $6,200,000 bridge loan agreement to finance capital projects. The bridge loan is a variable rate, LIBOR-based loan that is available to be drawn down on by Healthcare through July 20, 2016. The bridge loan is collateralized by Healthcare's marketable securities. As of September 30, 2012 and 2011, there were no amounts outstanding under the terms of the bridge loan.

On August 29, 2011, Healthcare entered into a $11,000,000 term loan agreement, the proceeds from which were drawn in two tranches of $5,800,000 and $5,200,000 on September 2, 2011 and October 31, 2011, respectively. The first draw was used to refinance a privately-held loan on land and the second was used to refinance the Falmouth Assisted Living Series A variable rate debt. The first tranche is financed for seven years at a fixed rate of 3.56%. The second tranche is financed at a fixed rate of 3.15% for seven years.

On February 24, 2012, ten year direct placement Series 2012A bonds were issued with a commercial bank at a fixed rate of 2.66%. The bonds are fully amortized upon final maturity in 2022. The proceeds were used to retire Series B Bonds of $11,435,000 and to partially retire $13,890,000 of Series C Bonds. Healthcare recorded a nonoperating loss on the extinguishment of debt of $1,025,000 related to this transaction.

The fair value of interest rate swap agreements at September 30, 2012 and 2011 are as follows:

	2012	2011
Series A Swap	$ (4,246,387)	$ (3,974,110)
Series C Swap	(19,740)	(67,118)
	$ (4,266,127)	$ (4,041,228)

The effects of interest rate swap arrangements on the consolidated statements of operations and changes in net assets for 2012 and 2011 are as follows:

	Location of (Loss) Gain in Statements of Operations	Amount of (Loss) Gain Recognized in Excess of Revenues and Gains Over Expenses and Losses for Years Ended September 30, 2012	2011
Series A Swap	Change in fair value of interest rate swaps	$ (272,277)	$ (201,015)
Series C Swap	Change in fair value of interest rate swaps	47,378	67,743
		$ (224,899)	$ (133,272)

Healthcare and its swap counterparties are exposed to credit risk in the event of nonperformance or early termination of the agreements. In accordance with the guidance on fair value measurements, Healthcare recorded a nonperformance risk adjustment which reduced the interest rate liability by approximately $265,000 and $359,000 in 2012 and 2011, respectively.

Collateral
The following is a summary of collateral under the above agreements:

Issue	Collateral
Revenue bonds:	
• Healthcare Obligated Group	Pledge of gross receipts and mortgages on the property and equipment of the core hospital campuses.
Notes payable:	
• Cape Cod Hospital	Mortgage on real estate and marketable securities ($2,100,000 fair value at September 30, 2012).
• Falmouth Hospital	Mortgage on real estate.

Loan Covenants
Several of the loan agreements contain covenants and financial ratios which require compliance by the various organizations. Certain of the agreements also provide for restrictions on, among other things, transfers, additional indebtedness, and dispositions of property, the most restrictive of which is the ratio of income available for debt service.

The Obligated Group
The Series C, D, E and 2012A Bonds are equally and ratably collateralized under the loan and trust agreements. At September 30, 2012, the Cape Cod Healthcare Obligated Group consisted of CCHC, CCHC Foundation, CCH and Falmouth Hospital.

Upon the issuance of the Cape Cod Healthcare Obligated Group Series C Bonds, CCH, CCHC, and CCHC Foundation became members of the Obligated Group under the Falmouth Hospital debt agreements. As such, all obligations issued under the Cape Cod Healthcare Obligated Group debt agreements or the Falmouth Hospital debt agreements will be joint and several obligations of the Cape Cod Healthcare Obligated Group, and equally and ratably collateralized by interests in the gross receipts of the Cape Cod Healthcare Obligated Group and the property subject to the mortgages.

Future Maturities
Aggregate future maturities of long-term obligations, including capital lease obligations, and unamortized net premium of $629,000, are as follows:

2013	$ 8,860,131
2014	8,970,037
2015	9,100,646
2016	9,074,553
2017	8,743,714
Thereafter	116,683,652
	$ 161,432,733

Fair Value of Long-Term Debt
The fair value of Healthcare's long-term debt is estimated based on quoted market prices for the same or similar issues. The estimated fair value of Healthcare's long-term debt was approximately $166,056,000 and $170,894,000 at September 30, 2012 and 2011, respectively.

11. Funds Held by Trustee Under Bond Indenture Agreements

At September 30, 2012 and 2011, under the terms of the agreements with HEFA, investments are being held in escrow for debt service and to fund future property and equipment additions.

These funds are invested primarily in certificates of deposit and U.S. government securities and are held in the following funds:

	2012	2011
Debt service fund	$ 3,177,636	$ 7,327,928
Debt service reserve fund	10,222,446	12,120,215
Project and construction funds	272,569	1,832,296
	$ 13,672,651	$ 21,280,439

12. Split Interest Agreements and Outside Trusts

Healthcare is obligated to make quarterly distributions to the beneficiaries of certain gift annuities (split-interest arrangements). The estimated net present value of these obligations totaled $1,883,000 and $2,015,000 at September 30, 2012 and 2011, respectively, and are included in other liabilities in the accompanying consolidated balance sheets. Upon the death of each of the beneficiaries, the related obligations of Healthcare terminate.

Healthcare is the trustee of a pooled income fund. This fund is divided into units, and contributions of donors' life income gifts are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donors' entry into the pool. Each donor receives the actual income earned on those units until his/her death. Upon the death of the donor, the donor's interest in the trust will revert to Healthcare and will be unrestricted. The estimated net present value of these obligations totaled $292,000 and $277,000 at September 30, 2012 and 2011, respectively, and are included in other liabilities in the accompanying consolidated balance sheets.

Healthcare holds beneficial interests in certain irrevocable charitable remainder trusts for which Healthcare does not serve as trustee. Healthcare records its beneficial interest in those trusts as contribution revenue and other assets at the present value of the expected future cash inflows. Such trusts are recorded at the date Healthcare has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for an asset. Changes in the value of these assets related to the amortization of the discount or revisions in the income beneficiary's life expectancy are recorded as a change in value of split interest agreements within temporarily or permanently restricted net assets.

Healthcare is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as beneficial interests in those assets as investments and contribution revenues at the date Healthcare is notified of the establishment of the trust and sufficient information regarding the trust has been obtained by Healthcare. Distributions from the trusts are recorded as investment income in the period they are received. Changes in fair value of the trusts are recorded as a change in beneficial interest in perpetual trusts within permanently restricted net assets.

13. Pledges Receivable

Pledges receivable represent unconditional promises to give. These amounts are reported at their present value, discounted at rates ranging from 1.25% to 4.88% and 1.75% to 2% at September 30, 2012 and 2011, and are recorded net of an allowance for uncollectible amounts. Pledges receivable at September 30, 2012 and 2011 are expected to be collected as follows:

	2012	2011
Amounts due		
Within one year	$ 4,574,264	$ 7,703,427
In one to five years	4,846,243	5,878,214
In more than five years	6,250	225,000
	9,426,757	13,806,641
Present value discount	(235,747)	(412,299)
Allowance for uncollectible amounts	(302,410)	(435,180)
	$ 8,888,600	$ 12,959,162

14. Restricted Net Assets

Restricted net assets are available for the following purposes:

	2012	2011
Temporarily restricted		
Healthcare services	$ 24,671,347	$ 24,290,176
Buildings	3,742,999	15,216,351
Purchase of equipment	192,783	118,554
	$ 28,607,129	$ 39,625,081
Permanently restricted		
Healthcare services	$ 27,983,284	$ 25,923,330

Endowment

Healthcare's endowment consists of approximately 50 individual donor restricted endowment funds for a variety of purposes plus split interest agreements, and other net assets. The endowments are classified and reported based on the existence of donor imposed restrictions.

Healthcare has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Healthcare classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Healthcare in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Healthcare considers the following factors in making a determination to appropriate or accumulate endowment funds: the duration and preservation of the fund; the purposes of the organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the organization; and the investment policies of the organization.

The following presents the endowment net asset composition by type of fund as of September 30, 2012 and 2011 and the changes in endowment assets for the years ended September 30, 2012 and 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2010	$ 7,479,923	$ 26,563,186	$ 34,043,109
Investment return			
Investment income	87,112	-	87,112
Net realized and unrealized appreciation	(164,401)	(1,001,698)	(1,166,099)
Total investment return	(77,289)	(1,001,698)	(1,078,987)
Gifts	-	361,842	361,842
Appropriation of endowment assets for expenditure	(685,875)	-	(685,875)
Endowment net assets at September 30, 2011	6,716,759	25,923,330	32,640,089
Investment return			
Investment income	70,520	-	70,520
Net realized and unrealized depreciation	1,395,924	1,624,863	3,020,787
Total investment return	1,466,444	1,624,863	3,091,307
Gifts	-	435,091	435,091
Appropriation of endowment assets for expenditure	(691,014)	-	(691,014)
Endowment net assets at September 30, 2012	$ 7,492,189	$ 27,983,284	$ 35,475,473

Endowment Funds With Deficits

From time to time, the fair value of net assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction to unrestricted net assets. This deficit was immaterial to the financial statements as of September 30, 2012 and 2011.

15. Functional Expenses

Total operating expenses by function are as follows:

	2012	2011
Healthcare services	$ 566,715,063	$ 531,664,438
General and administrative	68,615,725	66,450,578
	$ 635,330,788	$ 598,115,016

16. Commitments and Contingencies

Leases

Healthcare has entered into operating leases for certain office equipment and office space. Certain leases provide for renewal options and some contain provisions requiring the affiliates to pay their proportionate share of operating costs in addition to base rent. Rent expense under the operating leases amounted to approximately $6,288,000 and $6,083,000 in 2012 and 2011, respectively.

At September 30, 2012, the aggregate future rental commitments under noncancelable leases were:

	Capital Leases	Operating Leases
2013	$ 1,201,652	$ 5,595,831
2014	1,140,804	3,246,314
2015	1,070,404	2,058,317
2016	825,990	1,092,599
2017	322,794	711,285
Thereafter	1,555,250	116,988
Total lease payments	6,116,894	$ 12,821,334
Less: Amount representing interest	(1,588,932)	
Capital lease obligations at September 30, 2012	$ 4,527,962	

Malpractice Insurance

Effective June 1, 2004, Healthcare became self-insured for professional and general liability insurance coverage as funded through CHICO, a wholly-owned CCHC affiliate domiciled in the Cayman Islands. CHICO provides the professional liability insurance coverage on a modified claims-made basis, and the general liability claims on an occurrence basis. Liability limits are set annually at $2,000,000 per medical incident and $6,000,000 in the aggregate. Effective for the policy year starting June 1, 2008, CHICO's maximum retention in any one policy year is $8,000,000; for all prior policy years maximum retention is $10,000,000. Since June 1, 2008, CHICO has maintained reinsurance for 100% of the losses above the underlying policy limits/retention, up to a maximum limitation of $25,000,000 per policy year. For all policy years prior to June 1, 2008, CCHC maintained excess insurance coverage with a maximum limitation up to $25,000,000 per policy year. Prior to June 1, 2004, CCHC and its affiliates purchased professional and comprehensive general liability insurance policies to cover, among other risks, medical malpractice claims. Such policies covered claims either on an occurrence or a claims-made basis. Under the claims-made policies, coverage is provided by CHICO when a claim is first reported during a policy term and its incident date is on or after the retroactive date.

Workers' Compensation

Healthcare provides certain workers' compensation coverage on a self-insured basis. The liability, including an estimate for claims incurred but not reported, at September 30, 2012 and 2011, of approximately $7,055,000 and $7,630,000, respectively, is included in accounts payable and accrued expenses.

Health Insurance Plan

Healthcare became self-insured for its employee health insurance plan effective May 31, 2009. As a result of this change, Healthcare recorded a liability of $6,629,000 and $5,760,000 for claims incurred but not reported at September 30, 2012 and 2011, respectively, which is included in accounts payable and accrued expenses.

Other Contingencies

CCHC and its affiliates are parties in various legal proceedings and potential claims arising in the ordinary course of its business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions, 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 believes that CCHC and its affiliates are in compliance with current laws and regulations and does not believe that these matters will have a material adverse effect on CCHC and its affiliates' consolidated financial statements.

17. Concentration of Credit Risk

Financial instruments that potentially subject Healthcare to concentrations of credit risk are patient and other accounts receivable, cash and cash equivalents, derivatives, and investments. CCHC and its affiliates are located in the Cape Cod area of Massachusetts. The entities grant credit without collateral to their patients, many of whom are local residents and are insured under third-party payor agreements.

Accounts receivable from patients and third-party payors at September 30, 2012 and 2011, were as follows:

	2012	2011
BlueCross and BlueShield	8 %	7 %
Medicare	44	41
Medicaid	15	12
Other third-party payors	27	33
Patients	6	7
	100 %	100 %

A significant portion of the accounts receivable from other third-party payors (commercial insurance companies and HMOs) is derived from two Massachusetts managed care companies. Although management expects amounts recorded as net accounts receivable at September 30, 2012, to be collectible, this concentration of credit risk is expected to continue in the near term.

18. Acquisitions

On October 1, 2010, Cape Cod Health Network LLC, a physician organization in which Healthcare has a 50% ownership interest, was formed. Healthcare records its investment in this organization under the equity method of accounting.

On February 22, 2011, Healthcare opened a joint venture with a private group that provides radiation therapy services to its Upper Cape market. Healthcare's investment in the joint venture was $2,797,000 as of September 30, 2012, which has been accounted for using the equity method of accounting. In addition, per the terms of the joint venture agreement, Healthcare has guaranteed fifty percent of the joint venture's lease obligation. The joint venture's total obligation is $3,594,000 and $5,000,000 as of September 30, 2012 and 2011, respectively.

On December 30, 2011, CCH formed an LLC with a private group to operate MRI and CT imaging services in its Mid-Cape market. CCH has a 50.5% share of the LLC at September 30, 2012. As a result of this investment, the assets, liabilities, revenues and expenses of the LLC have been consolidated into the financial statements of CCH. CCH's noncontrolling interest in the LLC was $1,289,000 at September 30, 2012 and has been recorded as an offset to unrestricted net assets on the balance sheet.

19. Subsequent Events

Healthcare has assessed the impact of subsequent events through January 9, 2013, the date that the financial statements were issued, and has concluded that there were no events that require adjustment to the audited financial statements or disclosure in the footnotes to the audited financial statements, other than the items as described above.

Cape Cod Healthcare, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/ Contract Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct Programs			
Grants to provide Outpatient Early Intervention Services with respect to HIV Disease	93.918	2H76HA00764-04-C0	$ 339,092
Grants to provide Outpatient Early Intervention Services with respect to HIV Disease	93.918	2H76HA00764-04-C0	260,676
Total Direct Programs			599,768
Pass-Through from the Commonwealth of Massachusetts			
National Bioterrorism Hospital Preparedness Program	93.889	1U3RHS05952-01-00	62,675
HIV Care Formula Grants	93.917	INTF4943MM3200120008	162,855
Total Pass-Through from the Commonwealth of Massachusetts			225,530
Total U.S. Department of Health and Human Services			825,298
Section 8 Housing Assistance Payments Program Cluster			
Section 8 Housing Assistance Payments Program Cluster	14.195	MA06T791001	29,388
Total Expenditures of Federal Awards			$ 854,686

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

Cape Cod Healthcare, Inc. and Affiliates
Notes to Schedule of Expenditures of Federal Awards
September 30, 2012

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the expenditures of Healthcare ("Healthcare") under programs of the federal government for the year ended September 30, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and expenditures are presented on the accrual basis of accounting.

2. Facilities and Administrative Costs

Healthcare does not have a federal facilities and administrative cost rate. Healthcare charges administrative costs to certain grants in accordance with the terms and agreements of the respective grants.

3. Pass-Through Funds From the Commonwealth of Massachusetts

Healthcare expended total pass-through funds received from The Commonwealth of Massachusetts (the "Commonwealth"), for the period October 1, 2011 through September 30, 2012 of $225,530 compared to $264,576 for the period October 1, 2010 through September 30, 2011. Of these expenditures, the Commonwealth is unable to identify to Healthcare what portion of the October 1, 2011 through September 30, 2012 expenditures are related to federal funding (excluding amounts related to the National Bioterrorism Hospital Preparedness Program as this program is all Federally funded). Thus, the full amount expended by Healthcare of $225,530 has been included on the accompanying Schedule. During the period July 1, 2011 through September 30, 2012, the amount of pass-through funds expended for the HIV Care Formula Grants (Federal and Commonwealth) totaled $197,854 compared to $34,999 from July 1, 2010 through September 30, 2011. Federal pass-through funds for the Commonwealth's fiscal year (July 1, 2011 through June 30, 2012) amount to $103,654 out of total grant expenditures of $153,654 and were taken directly from the POS Expenditure and Federal Funds Listing – Fiscal Year 2012 provided to Healthcare by the Commonwealth for the HIV Care Formula Grants.

Part II

Reports on Internal Controls and Compliance

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

To the Board of Trustees of
Cape Cod Healthcare, Inc. and Affiliates

We have audited the financial statements of Cape Cod Healthcare, Inc. and Affiliates ("Healthcare") as of and for the year ended September 30, 2012, and have issued our report thereon dated January 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

We noted certain matters that we reported to management of Healthcare in a separate letter dated January 8, 2013.

This report is intended solely for the information and use of Healthcare's Board of Trustees, Audit Committee, management, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

January 9, 2013

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
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Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees of
Cape Cod Healthcare, Inc. and Affiliates

Compliance

We have audited the compliance of Cape Cod Healthcare, Inc. and Affiliates ("Healthcare") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. Healthcare's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Healthcare's management. Our responsibility is to express an opinion on Healthcare's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Healthcare's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Healthcare's compliance with those requirements.

In our opinion, Healthcare complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

Management of Healthcare is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Healthcare's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of Healthcare's internal control over compliance.

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

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

This report is intended solely for the information and uses of Healthcare's Board of Trustees, Audit Committee, management, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

April 10, 2013

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Part III

Findings

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified	
Internal control over financial reporting		
Material weakness(es) identified?	__ yes	X no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	__ yes	X none reported
Noncompliance material to the financial statements noted?	__ yes	X no

Federal Awards

Internal control over major programs		
Material weakness(es) identified?	__ yes	X no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	__ yes	X none reported
Type of auditor's report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	__ yes	X no

Identification of major programs CFDA Number(s)	Name of Federal Program or Cluster
93.918	Grants to provide Outpatient Early Intervention Services with respect to HIV Disease
93.917	HIV Care Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs	$300,000	
Auditee qualified as low-risk auditee?	__ yes	X no

II. Financial Statement Findings

None noted.

III. Federal Awards Findings and Questioned Costs

None noted.

Cape Cod Healthcare, Inc. and Affiliates
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2012

There are no findings from prior years that require an update.