

LOWELL COMMUNITY HEALTH CENTER, INC.

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT
Year Ended September 30, 2009

CONTENTS

PAGE

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

Balance Sheet.....	1
Statement of Operations.....	2
Statement of Changes in Net Assets.....	3
Statement of Cash Flows	4
Notes to Financial Statements.....	5 - 13

SUPPLEMENTARY INFORMATION

Supplemental Schedule of Operating Expenses	14
---	----

SUPPLEMENTARY OMB A-133 INFORMATION

Schedule of Expenditures of Federal Awards.....	15 - 16
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	17 - 18
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	19 - 20
Schedule of Findings and Questioned Costs.....	21 - 24



HODGSON PRATT
& ASSOCIATES PC
Certified Public Accountants | Business Advisors

OUR BUSINESS IS UNDERSTANDING YOURS

Rodman Candleworks Building
72 North Water Street, 2nd Floor
New Bedford, MA 02740-6245
website: www.hpacpa.com
phone: 508.990.2600
fax: 508.994.7006

John G. Hodgson, Jr., cpa, cfp
James R. Pratt, Jr., cpa, mst
Michele M. Pratt, cpa, mba
Kimberly M. Saunders, cpa, mst

Independent Auditors' Report

Board of Directors
Lowell Community Health Center, Inc.

We have audited the accompanying balance sheet of **Lowell Community Health Center, Inc.** (a 501c(3) nonprofit organization), as of September 30, 2009 and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's 2008 financial statements and, in our report dated December 12, 2008 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lowell Community Health Center, Inc. as of September 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2009 on our consideration of Lowell Community Health Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Lowell Community Health Center, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Lowell Community Health Center, Inc. taken as a whole. The supplemental schedule of operating expenses for the year ended September 30, 2009 on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements of the Health Center. Such information is the representation of the Health Center's management and has not been subjected to the procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion on it.

Modgson Bratt + Associates, P.C.

New Bedford, Massachusetts
December 3, 2009

LOWELL COMMUNITY HEALTH CENTER, INC.

BALANCE SHEET
September 30, 2009
with Comparative Totals for September 30, 2008

ASSETS	<u>2009</u>	(memorandum only) <u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 800,071	\$ 875,190
Patient accounts receivable, less allowance for doubtful accounts and contractual allowances of \$1,545,999 in 2009 and \$1,321,068 in 2008	1,594,514	1,854,670
Grants and contracts receivable	612,525	602,656
Pledge receivable, current portion	400,000	-
Other receivables	4,118	1,939
Prepaid expenses	23,489	38,393
Due from LCHC Corporation	78,181	116,262
<i>Total current assets</i>	<u>3,512,898</u>	<u>3,489,110</u>
Property and Equipment		
Building and improvements	1,876,499	1,865,988
Land	88,015	88,015
Leasehold improvements	134,947	134,947
Equipment	2,216,720	2,040,242
Equipment under capital lease	374,426	374,426
Vehicles	19,010	19,010
Construction in progress	342,043	31,598
	<u>5,051,660</u>	<u>4,554,226</u>
Less accumulated depreciation	(2,418,329)	(2,073,665)
<i>Net property and equipment</i>	<u>2,633,331</u>	<u>2,480,561</u>
Non-Current Assets		
Pledge receivable, net of current	-	387,354
<i>Total non-current assets</i>	<u>-</u>	<u>387,354</u>
Total assets	<u>\$ 6,146,229</u>	<u>\$ 6,357,025</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Lines of credit	\$ 735,062	\$ 835,062
Current portion of long-term debt	29,912	27,175
Current portion of due to Lowell General	120,000	120,000
Accounts payable	974,475	780,943
Accrued expenses	898,379	1,073,202
<i>Total current liabilities</i>	<u>2,757,828</u>	<u>2,836,382</u>
Long-term debt, net of current maturities	318,242	348,154
Due to Lowell General, net of current maturities	464,986	495,711
Deferred revenue	-	345,000
<i>Total liabilities</i>	<u>3,541,056</u>	<u>4,025,247</u>
Commitments and contingencies		
Net assets - unrestricted	1,499,588	1,273,028
Net assets - temporarily restricted	1,105,585	1,058,750
<i>Total net assets</i>	<u>2,605,173</u>	<u>2,331,778</u>
Total liabilities and net assets	<u>\$ 6,146,229</u>	<u>\$ 6,357,025</u>

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

LOWELL COMMUNITY HEALTH CENTER, INC.

STATEMENT OF OPERATIONS
For the Year Ended September 30, 2009
with Comparative Totals For the Year Ended September 30, 2008

Unrestricted	<u>2009</u>	(memorandum only) <u>2008</u>
Revenue, gains and other support:		
Net patient service revenue	\$ 11,279,898	\$ 11,124,388
Grants and contracts	7,337,227	7,076,916
Fundraising revenue	61,081	30,359
Other	69,913	134,283
Interest	24,297	22,121
In-kind	32,000	32,000
Rental income	7,200	2,140
Net assets released from restrictions, used for operations	67,383	178,690
<i>Total revenue, gains and other support</i>	<u>18,878,999</u>	<u>18,600,897</u>
Expenses		
Personnel and related costs	15,994,867	14,967,010
Occupancy	666,127	585,280
Program costs	437,159	470,912
Other, including interest of \$65,805 in 2009 and \$71,455 in 2008	1,555,304	2,026,851
Depreciation	344,664	213,444
<i>Total operating expenses</i>	<u>18,998,121</u>	<u>18,263,497</u>
<i>(Deficit) excess of revenues over expenses</i>	(119,122)	337,400
Net assets released from restrictions, restricted for capital purchases	<u>345,682</u>	<u>216,599</u>
Increase in unrestricted net assets	<u>\$ 226,560</u>	<u>\$ 553,999</u>

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

LOWELL COMMUNITY HEALTH CENTER, INC.

STATEMENT OF CHANGES IN NET ASSETS
 For the Year Ended September 30, 2009
 with Comparative Totals For the Year Ended September 30, 2008

	<u>2009</u>	(memorandum only) <u>2008</u>
Unrestricted Net Assets:		
<i>(Deficit) excess of revenues over expenses</i>	\$ (119,122)	\$ 337,400
Net assets released from restrictions, restricted for capital purchases	<u>345,682</u>	<u>216,599</u>
<i>Increase in unrestricted net assets</i>	<u>226,560</u>	<u>553,999</u>
Temporarily Restricted Net Assets:		
Grants and contracts restricted for operations	114,218	67,383
Grants and contracts restricted for capital purchases	345,682	137,649
Net assets released from restriction	<u>(413,065)</u>	<u>(395,289)</u>
<i>Decrease in temporarily restricted net assets</i>	<u>46,835</u>	<u>(190,257)</u>
Change in net assets	273,395	363,742
Net assets, beginning of year	<u>2,331,778</u>	<u>1,968,036</u>
<i>Net assets, end of year</i>	<u><u>\$ 2,605,173</u></u>	<u><u>\$ 2,331,778</u></u>

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

LOWELL COMMUNITY HEALTH CENTER, INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2009
with Comparative Totals For the Year Ended September 30, 2008

	<u>2009</u>	(memorandum only) <u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ 273,395	\$ 363,742
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	344,664	213,444
Provision for bad debts	112,698	706,437
Pledge discount amortization	(12,646)	-
Restricted contributions	(345,682)	(137,649)
(Increase) decrease in assets		
Patient accounts receivable	147,458	(988,678)
Grants and contracts receivable	(9,869)	280,126
Other receivables	14,904	(201)
Prepaid expenses	(2,179)	(18,250)
Due from LCHC Corporation	38,081	(22,989)
Increase (decrease) in liabilities		
Accounts payable	193,532	7,354
Accrued expenses	(174,823)	254,467
Deferred revenue	(345,000)	345,000
<i>Net cash provided by operating activities</i>	<u>234,533</u>	<u>1,002,803</u>
Cash flows from investing activities		
Additions of property, plant and equipment	(497,434)	(1,273,561)
Proceeds from the sale of investments		30,017
<i>Net cash used by investing activities</i>	<u>(497,434)</u>	<u>(1,243,544)</u>
Cash flows from financing activities		
Proceeds from lines of credit	-	490,000
Payments on lines of credit	(100,000)	-
Payments on long-term debt	(27,175)	(25,270)
Proceeds on due to Lowell General	158,070	161,009
Payments on due to Lowell General	(188,795)	(312,906)
Proceeds from contributions restricted for capital purchases	345,682	137,649
<i>Net cash (used) provided by financing activities</i>	<u>187,782</u>	<u>450,482</u>
(Decrease) increase in cash and cash equivalents	(75,119)	209,741
Cash and cash equivalents, beginning of period	875,190	665,449
Cash and cash equivalents, end of period	<u>\$ 800,071</u>	<u>\$ 875,190</u>
Supplemental Data		
Interest paid	<u>\$ 65,805</u>	<u>\$ 71,455</u>

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

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2009

NOTE A -- ORGANIZATION

This summary of significant accounting policies of Lowell Community Health Center, Inc. (the Health Center) is presented to assist in understanding the Health Center's financial statements. The accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements. The financial statements and notes are the responsibility of the Health Center's management, which is responsible for their integrity and objectivity.

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities as of the financial statement date and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Nature of Activities

The Health Center is a Federally Qualified Health Center and provides quality community based ambulatory health services and in-patient services to residents of the Greater Lowell area without regard to the patient's ability to pay for these services.

Basis of Accounting

The Health Center consistently follows the accrual method of accounting, including the provision for depreciation of property and allowances for doubtful accounts and contractual adjustments based on current economic conditions and experience.

Display of Net Assets by Class

Financial statement presentation follows the recommendation of FASB Professional Standards. Under FASB Professional Standards, the Health Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets – Net assets whose use by the Health Center is subject to donor-imposed restrictions that can be fulfilled by actions of the Health Center pursuant to those restrictions or that expire by the passage of time.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2009

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES (continued)

Display of Net Assets by Class (continued)

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Health Center. No permanently restricted assets were held during 2009 and accordingly, these financial statements do not reflect any activity related to this class of net assets.

Summarized Comparative Data

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Health Center's financial statements for the year ended September 30, 2008, from which the summarized information was derived.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, savings and money market accounts. For the statement of cash flows, the Health Center considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Health Center provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of patients to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Health Center's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Tax-Exempt Status

The Health Center qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

The Health Center has deferred the application of Professional Standards until fiscal years that begin after December 15, 2008, as permitted by ASC 740-10. The Health Center recognizes the effect of uncertain tax positions in the financial statements on a more likely than not basis, such that current or deferred tax assets and liabilities are recognized when the related uncertain tax position is taken or is expected to be taken. Any changes in uncertain tax positions are recorded in the period the ultimate outcome becomes known.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2009

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue

Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

The Health Center has a policy of providing free care to patients who are determined to meet the criteria established by the Division of Health Care Finance and Policy Health Safety Net Office (HSNO) as Medical Hardship under 114.6 CMR13.05. This is confirmed by the Health Center prior to or at the time of services being rendered. Since the Health Center does not expect payment, it estimates charges for free care based upon the Health Center's rate structure. For the year ended September 30, 2009, the Health Center provided free care and was reimbursed approximately \$548,458 by the Massachusetts Department of Health Care Finance and Policy for medically necessary free care services provided to low-income uninsured and underinsured patients. This revenue is included in net patient service revenue in the accompanying statement of activities. Free care revenue is subject to possible final audit determination by the Massachusetts Department of Health Care Finance and Policy. In the opinion of management, the effect of such cost determinations or adjustments, if any, will not have a material effect on the financial position of the Health Center as of September 30, 2009, or on the changes in its net assets for the year then ended.

Charges made to most third party payors for patient services are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the effect of such cost determinations or adjustments, if any, will not have a material effect on the financial position of the Health Center as of September 30, 2009, or on the changes in its net assets for the year then ended.

Donated Facilities

In reporting its support, revenue and expenses, the Health Center has included in its operating revenues and expenses the fair value of facilities donated to it.

Property and Equipment

The Health Center capitalizes all property assets acquired in excess of \$500 at cost. Depreciation is provided at rates calculated to write off the cost of the assets over their estimated useful lives using the straight-line method as follows:

Building and improvements	5 – 30 years
Equipment	3 – 15 years
Equipment under capital lease	3 – 5 years
Vehicle	4 years

Depreciation expense totaled \$344,664 in 2009.

Reclassification

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2009

NOTE C -- ACCOUNTS RECEIVABLE - SERVICES

Accounts receivable – services consisted of the following at September 30, 2009 which are due from Medicaid, patients and other third-party payors:

Accounts receivable	\$ 3,140,513
Less: allowance for doubtful accounts	<u>(1,545,999)</u>
	<u>\$ 1,594,514</u>

The Health Center provides credit, in the normal course of business, to a majority of its customers. The Health Center performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses.

NOTE D -- ACCOUNTS RECEIVABLE – GRANTS AND CONTRACTS

The Health Center receives funding from several government and local agencies to assist with program expenses and operating costs. For the year ended September 30, 2009, receivables from grants and contracts was as follows:

U.S. Department of Health and Human Services	\$ 146,301
Commonwealth of Massachusetts	191,901
Other grants, contracts and contributions	<u>274,323</u>
	<u>\$ 612,525</u>

Management of the Health Center believes the aforementioned grants and contracts have been expended with their specified terms and conditions. Most of the grants and contracts are subject to possible final audit determination by certain governmental agencies.

NOTE E -- PLEDGE RECEIVABLE

In fiscal year 2002, Lowell General Hospital pledged \$1,000,000 payable over five years restricted to capital expansion of the clinic. The Health Center has received \$600,000 of the pledge. The Hospital affirmed their commitment to the pledge and has indicated that they will be paying their pledge in full in fiscal year 2010. Accordingly, the pledge is presented at its full value of \$400,000.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2009

NOTE F -- CONSTRUCTION IN PROGRESS

As of the end of the year, the Health Center had ongoing construction projects. Costs had been incurred on these projects as of September 30, 2009, but no contracts have been signed related to the construction. All costs associated with these projects are being capitalized to construction in progress until the projects are completed and placed in service, at which time the Health Center will begin to depreciate the assets.

NOTE G -- LONG-TERM DEBT

Long-term debt consists of the following at September 30:

Note payable to a bank, due in monthly installments of \$3,884, principal and interest maturing October, 2017. The interest rate is fixed for five years at 6.75%, then reviewed every three years and adjusted to 2.0% points over the average prime rate of the bank for the previous three months. The note is secured by a first mortgage on the building located at 585 Merrimack Street.	\$ 348,154
Less: current maturities	<u>(29,912)</u>
	<u>\$ 318,242</u>

Future minimum payments of long-term debt for the year ended September 30:

2010	\$ 29,912
2011	35,086
2012	37,514
2013	40,214
2014	43,054
Thereafter	<u>162,374</u>
	<u>\$ 348,154</u>

NOTE H -- DUE TO/DUE FROM LOWELL GENERAL HOSPITAL

Lowell General Hospital (the Hospital) provides benefits to employees hired prior to October 15, 2003 on behalf of the Health Center. As of September 30, 2009, the Health Center owed \$1,191,701 to the Hospital.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2009

NOTE H -- DUE TO/DUE FROM LOWELL GENERAL HOSPITAL (continued)

Lowell General Hospital has also agreed to reimburse the Health Center for certain medical services provided on behalf of the Hospital by employees and subcontractors of the Health Center. As of September 30, 2009, amounts due to the Health Center related to these services totaled \$606,715, resulting in a net amount due to Lowell General Hospital of \$584,986. No formal repayment terms exist; however, the parties have mutually agreed that \$120,000 should be shown as due in the next year.

NOTE I -- RELATED PARTIES

The Health Center leases office space (15 Warren Street) from an organization whose board is composed of members of the Health Center's management as a tenant at will. Rent is determined by the operating costs of the building owned by LCHC Corporation. Rent for 2009 was approximately \$139,270. The Health Center also advances money to LCHC Corporation from time to time, which for 2009 totaled \$101,186. The amount due from LCHC Corporation at September 30, 2009 was \$78,181.

The Health Center purchases insurance policies from a company owned by a member of the board of directors. The premiums for the policies approximated \$97,580 for the year ended September 30, 2009.

One member on the Health Center's board of directors is also a member of management of Lowell General Hospital.

NOTE J -- COMMITMENTS

The Health Center leases office space and equipment under various noncancelable operating lease agreements which expire at various times through 2010. The facilities' leases include options to renew and escalation clauses based on increased operating costs.

Minimum lease rental commitments under leasing agreements for the year ended September 30, are as follows:

2010	<u>\$ 70,701</u>
------	------------------

Rental expense under leases totaled \$351,801 in the year ended September 30, 2009.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2009

NOTE K -- CONCENTRATION OF CREDIT RISK

The Health Center maintains its cash balances in deposit accounts at various local banks. The cash is held in interest-bearing accounts insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution which was increased to \$250,000 effective October 3, 2008 through December 31, 2013, and in noninterest-bearing accounts insured 100% through June 30, 2010. As of September 30, 2009, cash balances exceeded the Federal insured limits by approximately \$372,691. The Health Center performs periodic evaluations of the bank's financial condition in order to minimize its concentration of credit risk on its cash deposits.

The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payor agreements at September 30, 2009 approximated:

Medicaid	34%
Other Third-party Payors	65%
Patients	<u>1%</u>
	<u>100%</u>

The Health Center receives unrestricted and temporarily restricted funding from several government and local agencies to assist with program expenses and operating costs. For the year ended September 30, 2009, support from grants and contracts was as follows:

Department of Health and Human Services	\$ 2,609,882
Commonwealth of Massachusetts	1,992,389
Other	<u>3,080,638</u>
	<u>\$ 7,682,909</u>

NOTE L -- NET PATIENT SERVICE REVENUE

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Net patient service revenue consisted of the following at September 30, 2009:

Gross patient revenue	\$ 19,664,094
Less: contractual allowances and adjustments	<u>(8,384,196)</u>
	<u>\$ 11,279,898</u>

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2009

NOTE M -- DONATED RENT

The Health Center leases one of its primary clinical services buildings from the Hospital at \$1 per year and uses donated space in the Hospital for clinic services. The estimated fair value of donated rent for the clinic space as determined by a local real estate firm totaled \$32,000. This amount is included in in-kind revenue and rent expense for the year.

NOTE N -- LINES OF CREDIT

The Health Center maintains a \$500,000 line of credit with Enterprise Bank and Trust Co. (the bank). Outstanding borrowings on this line of credit accrue interest at the bank's prime rate per annum, 3.25% at September 30, 2009. The Health Center is required to comply with various non-financial covenants as specified in the agreement. The line of credit is secured with real property located at 15 Warren Street, Lowell, MA which is owned by LCHC Corporation (Note I) and accounts receivable and tangible personal property excluding information technology equipment of the Health Center. The outstanding balance at September 30, 2009 was \$495,062.

The Health Center also maintains a \$350,000 line of credit with Enterprise Bank and Trust Co. (the bank). Outstanding borrowings on this line of credit accrue interest at the bank's prime rate per annum, 3.75% at September 30, 2009. The Health Center is required to comply with various non-financial covenants as specified in the agreement. The line of credit is secured by substantially all business assets of the Health Center. The outstanding balance at September 30, 2009 was \$240,000

NOTE O -- EMPLOYEES RETIREMENT PLAN

Employees of the Health Center as of October 15, 2003 are eligible to participate in the Hospital's non-contributory defined benefit pension plan (the Plan). The Plan is available to all employees who have met certain minimum participation requirements. Pension expense for the Health Center for the year ended September 30, 2009 was \$157,684. Fair value of plan assets, benefit obligations and other plan information pertaining only to employees of the Health Center is not determinable and therefore not reflected in the accompanying financial statements or in these notes to the financial statements.

NOTE P -- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following as of September 30, 2009:

Property Acquisition and Center Expansion	\$ 851,337
Capital Campaign	140,030
Operations	<u>114,218</u>
	<u>\$ 1,105,585</u>

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2009

NOTE Q -- CLASSIFICATION OF EXPENSES

The Health Center provides general health services to residents within its geographic location. Expenses related to providing these services are as follows:

Health care services	\$ 14,965,369
General and administrative	<u>4,032,752</u>
	<u>\$ 18,998,121</u>

NOTE R -- SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 3, 2009, the date the financial statements were available to be issued. No such events requiring disclosure subsequent to year-end were noted as of December 3, 2009.

SUPPLEMENTAL SCHEDULES

LOWELL COMMUNITY HEALTH CENTER, INC.

SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES
 For the Year Ended September 30, 2009
 with Comparative Totals For the Year Ended September 30, 2008

(memorandum only)

	<u>2009</u>	<u>2008</u>
Payroll and Related Costs		
Salaries	\$ 12,934,189	\$ 11,885,962
Payroll taxes and fringe benefits	2,366,448	2,166,700
Contracted staff	582,850	689,623
Recruitment	52,773	108,676
Staff education	58,607	116,049
	<u>15,994,867</u>	<u>14,967,010</u>
Occupancy		
Rent	351,801	271,847
Repairs, maintenance and security	214,194	213,662
Utilities	81,548	84,607
Insurance	18,584	15,164
	<u>666,127</u>	<u>585,280</u>
Program Costs		
Laboratory	77,913	91,625
Linen service	21,932	26,526
Hazard waste	5,662	5,261
Medical supplies	163,972	199,291
Program supplies	9,525	20,610
Professional insurance	59,453	51,785
Pharmacy	98,702	75,814
	<u>437,159</u>	<u>470,912</u>
Other Expenses		
Auto expenses	7,017	14,700
Bad debt expense	112,698	706,437
Client transportation	15,310	16,613
Consultants	59,739	44,782
Client personal allowances	37,534	31,652
In-kind	560	2,835
Food	154,891	144,589
Interest	65,805	71,455
Licenses and taxes	26,886	27,008
Membership dues and fees	55,681	63,284
Data processing	133,665	202,949
Office supplies	87,254	112,243
Officer and director insurance	15,445	14,271
Outreach	28,830	35,059
Parking	84,731	71,499
Postage and delivery	48,585	35,775
Printing and publications	23,841	17,474
Professional fees	30,807	19,053
Service maintenance contracts	214,366	66,228
Storage	17,799	13,515
Subscriptions	11,994	12,612
Supplies	85,718	78,306
Telephone	165,623	158,662
Trash removal	10,021	9,697
Travel	42,011	47,136
Other	18,493	9,017
	<u>1,555,304</u>	<u>2,026,851</u>
Depreciation	<u>344,664</u>	<u>213,444</u>
Total Operating Expenses	<u>\$ 18,998,121</u>	<u>\$ 18,263,497</u>

SUPPLEMENTARY OMB A-133 INFORMATION

LOWELL COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2009

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass through Entity ID Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct			
ARRA – Health Center Integrated Services Development Initiative	93.703	N/A	\$ 86,552
Consolidated Health Centers	93.224	N/A	2,520,202
Allied Health Special Projects	93.191	N/A	6,719
Passed through Commonwealth of Massachusetts Department of Public Health			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	23035404044000	173,777
Maternal and Child Health Services Block Grant to the States	93.994	3314MM3703615033	21,029
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	3712MM3802213230	50,500
HIV Prevention Activities	93.940	493053500890000	100,000
HIV Care Formula Grants	93.917	4925MM3600414101	126,712
Refugee and Entrant Assistance	93.566	5189MM3600914020	64,364
Passed through Greater Lawrence Family Health Center			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	5H76HA00008-12	233,564
Passed through Health Quarters			
Family Planning Services	93.217	N/A	<u>189,322</u>
TOTAL FEDERAL AWARDS			<u>\$ 3,572,741</u>

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

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2009

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lowell Community Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.



HODGSON PRATT
& ASSOCIATES PC
Certified Public Accountants | Business Advisors

OUR BUSINESS IS UNDERSTANDING YOURS

Rodman Candleworks Building
72 North Water Street, 2nd Floor
New Bedford, MA 02740-6245
website: www.hpacpa.com
phone: 508.990.2600
fax: 508.994.7006

John G. Hodgson, Jr., cpa, cfp
James R. Pratt, Jr., cpa, mst
Michele M. Pratt, cpa, mba
Kimberly M. Saunders, cpa, mst

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lowell Community Health Center, Inc.

We have audited the financial statements of Lowell Community Health Center, Inc. (hereinafter "Health Center") as of and for the year ended September 30, 2009, and have issued our report thereon dated December 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 09.1 and 09.2.

We noted certain matters that we reported to management of the Health Center in a separate letter dated December 3, 2009.

The Health Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Health Center's response and, accordingly, we express no opinion on it.

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

Hodgson Grant & Associates, P.C.

New Bedford, Massachusetts
December 3, 2009



HODGSON PRATT
& ASSOCIATES P C
Certified Public Accountants | Business Advisors

OUR BUSINESS IS UNDERSTANDING YOURS

Rodman Candleworks Building
72 North Water Street, 2nd Floor
New Bedford, MA 02740-6245
website: www.hpacpa.com
phone: 508.990.2600
fax: 508.994.7006

John G. Hodgson, Jr., cpa, cfp
James R. Pratt, Jr., cpa, mst
Michele M. Pratt, cpa, mba
Kimberly M. Saunders, cpa, mst

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Lowell Community Health Center, Inc.

Compliance

We have audited the compliance of Lowell Community Health Center, Inc. (hereinafter "Health Center") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The Health Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Health Center's management. Our responsibility is to express an opinion on the Health Center's compliance based on our audit.

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

As described in items 09.1 and 09.2 in the accompanying schedule of findings and questioned costs, the Health Center did not comply with requirements regarding the reporting and special provisions that are applicable to Community Health Centers. Compliance with such requirements is necessary, in our opinion, for the Health Center to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Health Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the Health Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Health Center's internal control over compliance with 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 use of management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hodgson Pratt & Associate, P.C.

New Bedford, Massachusetts
December 3, 2009

LOWELL COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2009

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal Control Over Financial Reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:
CFDA Number(s)

Name of Federal Program or Cluster

93.224
93.918

Consolidated Health Centers
Grants to Provide Outpatient Early Intervention Services
with Respect to HIV Disease

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk? yes no

LOWELL COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Current Year

None.

Prior Year

None.

LOWELL COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2009

SECTION III – FEDERAL AWARD FINDINGS and QUESTIONED COSTS

Current Year

09.1 Reporting

Criteria: The Consolidated Health Centers Grant (CFDA # 93.224) requires that an annual report for each budget period be filed within 90 days of the end of the budget period with the Health Resources and Services Administration (HRSA).

Condition: The Health Center did not file the report within the required time period.

Cause: Turnover in key financial personnel delayed filing of the report.

Effect: The Health Center is non-compliant with the funding requirement.

Management Response: The SF-269 Financial Status Report for the grant period ended March 31, 2009 was due to be filed by June 30, 2009. In April, the Health Center's CFO left the organization and a replacement was not hired until August. This report was filed on August 31, 2009 and accepted by the HRSA Bureau of Primary Health Care on September 2, 2009. Since that time, an external reporting tool has been developed and implemented to ensure the timely filing of required reporting.

09.2 Majority of Board Served by Center

Criteria: The Consolidated Health Centers Grant (CFDA # 93.224) requires that the Board consist of individuals whom the majority of which are served by the Center.

Condition: The majority of the Board was not served by the Center.

Cause: Normal attrition of consumer board members resulted in the composition of the Board to fall below the 51% majority.

Effect: The Health Center was out of compliance with the consumer majority requirement at a point during the year.

Management Response: The Health Center takes its responsibility for having a consumer dominated Board of Directors quite seriously and contends that best efforts are put forth to ensure compliance with that requirement. While the Health Center was in compliance with this requirement for the majority of the year, we acknowledge that from time to time the consumer make-up of the board can fall out of the majority as the result of changes in member's family, career and other commitments. This occurred in September. A new consumer board member was identified and elected to the board at the October board meeting. Further, at that time, an

LOWELL COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2009

SECTION III – FEDERAL AWARD FINDINGS and QUESTIONED COSTS

Current Year (continued)

existing board member elected to seek primary medical care with the Health Center, thus preserving and enhancing the consumer majority. Both individuals have since established care and have been seen by a Health Center provider.

Prior Year

None.