

LOWELL COMMUNITY HEALTH CENTER, INC.

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT
Year Ended September 30, 2010

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HODGSON PRATT
& ASSOCIATES P C

Certified Public Accountants | Business Advisors

OUR BUSINESS IS UNDERSTANDING YOURS

John G. Hodgson, Jr., cpa, cfp

James R. Pratt, Jr., cpa, mst

Michele M. Pratt, cpa, mba

Kimberly M. Saunders, cpa, mst

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

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, 2010 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 2009 financial statements and, in our report dated December 3, 2009 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, 2010, 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 24, 2010 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 should be considered in 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, 2010 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.

Hodgson Pratt & Associates, P.C.

New Bedford, Massachusetts
December 24, 2010

LOWELL COMMUNITY HEALTH CENTER, INC.

BALANCE SHEET

September 30, 2010

with Comparative Totals for September 30, 2009

ASSETS	<u>2010</u>	(memorandum only) <u>2009</u>
Current Assets		
Cash and cash equivalents	\$ 1,154,032	\$ 800,071
Patient accounts receivable, less allowance for doubtful accounts and contractual allowances of \$1,223,567 in 2010 and \$1,545,999 in 2009	1,847,590	1,594,514
Grants and contracts receivable	938,297	612,525
Pledge receivable, current portion	-	400,000
Other receivables	6,361	4,118
Prepaid expenses	59,786	23,489
Due from LCHC Corporation	26,035	78,181
<i>Total current assets</i>	<u>4,032,101</u>	<u>3,512,898</u>
Property and Equipment		
Building and improvements	2,050,759	1,876,499
Land	88,015	88,015
Leasehold improvements	134,947	134,947
Equipment	2,273,771	2,216,720
Equipment under capital lease	374,426	374,426
Vehicles	19,010	19,010
Construction in progress	1,271,688	342,043
	<u>6,212,616</u>	<u>5,051,660</u>
Less accumulated depreciation	(2,780,738)	(2,418,329)
<i>Net property and equipment</i>	<u>3,431,878</u>	<u>2,633,331</u>
Total assets	<u>\$ 7,463,979</u>	<u>\$ 6,146,229</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Lines of credit	\$ 1,029,537	\$ 735,062
Current portion of long-term debt	36,886	29,912
Current portion of due to Lowell General	-	120,000
Accounts payable	608,548	974,475
Accrued expenses	1,231,870	898,379
<i>Total current liabilities</i>	<u>2,906,841</u>	<u>2,757,828</u>
Long-term debt, net of current maturities	279,492	318,242
Due to Lowell General, net of current maturities	-	464,986
<i>Total liabilities</i>	<u>3,186,333</u>	<u>3,541,056</u>
Commitments and contingencies		
Net assets - unrestricted	3,017,078	1,499,588
Net assets - temporarily restricted	1,260,568	1,105,585
<i>Total net assets</i>	<u>4,277,646</u>	<u>2,605,173</u>
Total liabilities and net assets	<u>\$ 7,463,979</u>	<u>\$ 6,146,229</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, 2010
with Comparative Totals For the Year Ended September 30, 2009

Unrestricted	<u>2010</u>	(memorandum only) <u>2009</u>
Revenue, gains and other support:		
Net patient service revenue	\$ 13,359,065	\$ 11,279,898
Grants and contracts	7,585,676	7,337,227
Fundraising revenue	35,746	61,081
Other	134,014	69,913
Interest	8,365	24,297
In-kind	82,832	32,000
Rental income	7,200	7,200
Forgiveness of debt	1,072,492	-
Net assets released from restrictions, used for operations	<u>114,216</u>	<u>67,383</u>
<i>Total revenue, gains and other support</i>	<u>22,399,606</u>	<u>18,878,999</u>
Expenses		
Personnel and related costs	17,317,311	15,994,206
Occupancy	636,250	666,127
Program costs	536,856	437,820
Other, including interest of \$52,878 in 2010 and \$65,805 in 2009	2,645,993	1,555,304
Depreciation	<u>362,410</u>	<u>344,664</u>
<i>Total operating expenses</i>	<u>21,498,820</u>	<u>18,998,121</u>
<i>Excess (deficit) of revenues over expenses</i>	900,786	(119,122)
Net assets released from restrictions, restricted for capital purchases	<u>616,704</u>	<u>345,682</u>
<i>Increase in unrestricted net assets</i>	<u><u>\$ 1,517,490</u></u>	<u><u>\$ 226,560</u></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, 2010
 with Comparative Totals For the Year Ended September 30, 2009

	<u>2010</u>	(memorandum only) <u>2009</u>
Unrestricted Net Assets:		
<i>Excess (deficit) of revenues over expenses</i>	\$ 900,786	\$ (119,122)
Net assets released from restrictions, restricted for capital purchases	<u>616,704</u>	<u>345,682</u>
<i>Increase in unrestricted net assets</i>	<u>1,517,490</u>	<u>226,560</u>
Temporarily Restricted Net Assets:		
Grants and contracts restricted for operations	184,599	114,218
Grants and contracts restricted for capital purchases	701,304	345,682
Net assets released from restriction	<u>(730,920)</u>	<u>(413,065)</u>
<i>Increase in temporarily restricted net assets</i>	<u>154,983</u>	<u>46,835</u>
Change in net assets	1,672,473	273,395
Net assets, beginning of year	<u>2,605,173</u>	<u>2,331,778</u>
<i>Net assets, end of year</i>	<u><u>\$ 4,277,646</u></u>	<u><u>\$ 2,605,173</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, 2010
 with Comparative Totals For the Year Ended September 30, 2009

	<u>2010</u>	<u>(memorandum only)</u> <u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ 1,672,473	\$ 273,395
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	362,410	344,664
Provision for bad debts	971,774	112,698
Pledge discount amortization	-	(12,646)
Forgiveness of debt	(1,072,492)	-
Restricted contributions	(701,304)	(345,682)
(Increase) decrease in assets		
Patient accounts receivable	(1,224,850)	147,458
Grants and contracts receivable	(325,772)	(9,869)
Pledge receivable	400,000	
Other receivables	(2,243)	14,904
Prepaid expenses	(36,297)	(2,179)
Due from LCHC Corporation	52,146	38,081
Increase (decrease) in liabilities		
Accounts payable	(365,927)	193,532
Accrued expenses	333,491	(174,823)
Deferred revenue	-	(345,000)
	<u>63,409</u>	<u>234,533</u>
<i>Net cash provided by operating activities</i>		
Cash flows from investing activities		
Additions of property, plant and equipment	(1,160,957)	(497,434)
Proceeds on due from Lowell General	400,000	-
	<u>(760,957)</u>	<u>(497,434)</u>
<i>Net cash used by investing activities</i>		
Cash flows from financing activities		
Proceeds from lines of credit	294,475	-
Payments on lines of credit	-	(100,000)
Payments on long-term debt	(31,776)	(27,175)
Proceeds on due to Lowell General	87,506	158,070
Payments on due to Lowell General	-	(188,795)
Proceeds from contributions restricted for capital purchases	701,304	345,682
	<u>1,051,509</u>	<u>187,782</u>
<i>Net cash provided by financing activities</i>		
Increase (decrease) in cash and cash equivalents	353,961	(75,119)
Cash and cash equivalents, beginning of period	800,071	875,190
Cash and cash equivalents, end of period	<u>\$ 1,154,032</u>	<u>\$ 800,071</u>
Supplemental Data		
Interest paid	<u>\$ 52,878</u>	<u>\$ 65,805</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, 2010

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 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, 2010

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 2010 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, 2009, 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.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within twelve months of September 30, 2010. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Health Center's income tax returns are subject to examination by taxing authorities generally for the years ended September 30, 2007, 2008 and 2009.

Net Patient Service Revenue

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

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2010

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue (continued)

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, 2010, the Health Center provided free care and was reimbursed approximately \$615,918 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, 2010, 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, 2010, 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.

Donated Goods and Services

Donated goods, services and other noncash donations are recorded as in-kind contributions at their estimated fair value at the date of donation.

Donated goods and services are recognized as contributions in accordance with Professional Standards, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Health Center.

Property and Equipment

The Health Center capitalizes all property assets acquired in excess of \$5,000 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 \$362,410 in 2010.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2010

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the assets' carrying amount over the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Reclassification

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

NOTE C -- ACCOUNTS RECEIVABLE - SERVICES

Accounts receivable – services consisted of the following at September 30, 2010 which are due from Medicaid, patients and other third-party payors:

Accounts receivable	\$ 3,071,157
Less: allowance for doubtful accounts	<u>(1,223,567)</u>
	<u>\$ 1,847,590</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, 2010, receivables from grants and contracts was as follows:

U.S. Department of Health and Human Services	\$ 386,025
Commonwealth of Massachusetts	237,733
Other grants, contracts and contributions	<u>314,539</u>
	<u>\$ 938,297</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.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2010

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 received \$600,000 of the pledge balance prior to September 30, 2009 and the remaining \$400,000 during fiscal year 2010. The outstanding balance as of September 30, 2010 was \$0.

NOTE F -- CONSTRUCTION IN PROGRESS

As of year end the Health Center had ongoing construction projects. Costs had been incurred on these projects totaling \$1,271,688 as of September 30, 2010, the majority of which relate to consulting, architectural and other professional fees incurred for plans to purchase and renovate a new building. 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.

The Health Center entered into an agreement with an architect for an estimated \$856,000 in total professional fees associated with the purchase and renovation of a new building which is expected to be completed sometime in 2012. As of September 30, 2010, approximately \$686,000 of these costs have been incurred, of which approximately \$4,800 remained unpaid at year end. Approximately \$168,000 remained unbilled on the contract at September 30, 2010.

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 \$4,667, 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.

\$ 316,378

Less: current maturities

(36,886)
\$ 279,492

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

2011	\$ 36,886
2012	39,357
2013	41,993
2014	44,805
2015	47,806
Thereafter	<u>105,531</u>
	<u>\$ 316,378</u>

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2010

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

In May 2010, the Hospital agreed to forgive the accrued pension liability owed to the Hospital of \$1,072,492. This amount was included in revenue and presented in the statement of activities for the year ended September 30, 2010. The Hospital also paid \$400,000 due to the Health Center during the year. The due to/due from balance was \$0 as of September 30, 2010.

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 2010 was approximately \$139,270. The Health Center also advances money to LCHC Corporation from time to time, which for 2010 totaled \$69,717. The amount due from LCHC Corporation at September 30, 2010 was \$26,035.

The Health Center purchases insurance policies from a company owned by a member of the board of directors. The premiums for the policies approximated \$103,713 for the year ended September 30, 2010.

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 2025. 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:

2011	\$ 114,179
2012	81,397
2013	75,402
2014	76,533
2015	77,681
Thereafter	<u>847,347</u>
Total	<u>\$ 1,272,539</u>

Rental expense under leases totaled \$343,009 in the year ended September 30, 2010.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2010

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 December 31, 2012. As of September 30, 2010, cash balances exceeded the Federal insured limits by approximately \$1,045,837. 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, 2010 approximated:

Medicaid	30%
Other Third-party Payors	64%
Patients	<u>6%</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, 2010, support from grants and contracts was as follows:

Department of Health and Human Services	\$ 4,283,844
Commonwealth of Massachusetts	1,983,725
Other	<u>2,049,027</u>
	<u>\$ 8,316,596</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, 2010:

Gross patient revenue	\$ 22,638,845
Less: contractual allowances and adjustments	<u>(9,279,780)</u>
	<u>\$ 13,359,065</u>

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2010

NOTE M -- DONATED GOODS, SERVICES AND RENT

During the year ended September 30, 2010, the Health Center received donations for goods and services totaling \$82,832, of which \$64,165 related to donated pension expense and \$18,667 for donated rental space and related occupancy expenses. These amounts are included in in-kind revenue, pension expense and rent expense for the year then ended.

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, 2010. 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, 2010 was \$495,062.

The Health Center also maintains a \$250,000 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, 2010. 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, 2010 was \$240,000.

The Health Center also maintains a \$700,000 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 plus 1%, which is 4.25% at September 30, 2010. 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, 2010 was \$294,475.

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, 2010 was \$151,669. 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.

The Health Center is expected to receive donated pension expense in the future for its employees covered under the Hospital's plan.

LOWELL COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2010

NOTE P -- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following as of September 30, 2010:

Property Acquisition and Center Expansion	\$ 1,075,967
Operations	<u>184,601</u>
	<u>\$ 1,260,568</u>

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	\$ 17,760,429
General and administrative	<u>3,945,106</u>
	<u>\$ 21,705,535</u>

NOTE R -- SUBSEQUENT EVENTS

Subsequent to the end of the year, the Health Center decided to close its inpatient drug and alcohol detoxification service unit as a result of sustained financial losses.

The Health Center will have the following estimated costs related to this closure:

- 1) Lease of space through December 31, 2010.
- 2) State unemployment costs for those staff not otherwise reassigned with the Health Center and laid off.
- 3) Payout of accrued vacation benefits. No severance packages are being offered to employees.

The Health Center has not assessed the total costs associated with the closure.

Subsequent events have been evaluated through December 24, 2010, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LOWELL COMMUNITY HEALTH CENTER, INC.

SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES
 For the Year Ended September 30, 2010
 with Comparative Totals For the Year Ended September 30, 2009

(memorandum only)
2010 2009

Payroll and Related Costs

Salaries	\$ 14,147,939	\$ 12,934,189
Payroll taxes and fringe benefits	2,637,190	2,366,448
Contracted staff	447,161	582,189
Recruitment	27,713	52,773
Staff education	57,308	58,607
	<u>17,317,311</u>	<u>15,994,206</u>

Occupancy

Rent	343,009	351,801
Repairs, maintenance and security	202,410	214,194
Utilities	69,309	81,548
Insurance	21,522	18,584
	<u>636,250</u>	<u>666,127</u>

Program Costs

Laboratory	116,073	78,574
Linen service	21,752	21,932
Medical waste	4,984	5,662
Medical supplies	186,603	163,972
Program supplies	10,970	9,525
Professional insurance	66,600	59,453
Pharmacy	129,874	98,702
	<u>536,856</u>	<u>437,820</u>

Other Expenses

Auto expenses	5,256	7,017
Bad debt expense	971,774	112,698
Client transportation	10,989	15,310
Consultants	217,938	59,739
Client personal allowances	50,994	37,534
Food	139,322	154,891
Interest	52,878	65,805
Licenses and taxes	26,910	26,886
Membership dues and fees	70,699	55,681
Data processing	81,962	133,665
Office supplies	84,549	87,254
Officer and director insurance	16,640	15,445
Outreach	26,266	28,830
Parking	98,272	84,731
Postage and delivery	38,282	48,585
Printing and publications	14,789	23,841
Professional fees	30,719	30,807
Service maintenance contracts	307,872	214,366
Storage	19,684	17,799
Subscriptions	8,653	11,994
Supplies	112,150	85,718
Telephone	174,880	165,623
Trash removal	9,715	10,021
Travel	37,219	42,011
Other	37,581	19,053
	<u>2,645,993</u>	<u>1,555,304</u>

Depreciation

	<u>362,410</u>	<u>344,664</u>
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Total Operating Expenses

	<u>\$ 21,498,820</u>	<u>\$ 18,998,121</u>
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SUPPLEMENTARY OMB A-133 INFORMATION

LOWELL COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2010

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 – Grants to Health Center Programs	93.703	N/A	\$ 351,281
Consolidated Health Centers	93.224	N/A	2,680,556
Patient Navigator and Chronic Disease Prevention Program	93.191	N/A	493,281
Drug-Free Communities Support Program Grants	93.276	N/A	125,000
Assistance for Torture Victims	93.604	N/A	260,000
Community Services Block Grant Discretionary Awards	93.570	N/A	364,433
Passed through Commonwealth of Massachusetts Department of Public Health			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2303MM3900617063	90,551
Violence Against Women	16.588	3414M03606512023	4,172
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	3712MM3802213230	50,360
HIV Prevention Activities	93.940	493053500890000	100,000
HIV Care Formula Grants	93.917	4925MM3600414101	144,369
Refugee and Entrant Assistance	93.566	5189MM3600914020	157,048
Passed through Greater Lawrence Family Health Center			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	5H76HA00008-12	234,686
Passed through Career Center of Lowell			
WIA Youth Activities	17.259	N/A	8,663

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

LOWELL COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2010

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass through Entity ID Number	Federal Expenditures
<i>Passed through UMASS Lowell University</i>			
Healthy Homes	14.901	N/A	76,387
<i>Passed through Health Quarters</i>			
Family Planning Services	93.217	N/A	<u>191,579</u>
TOTAL FEDERAL AWARDS			<u>\$ 5,332,366</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, 2010

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 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 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, 2010, and have issued our report thereon dated December 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 *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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of 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.

Modjsohn Pratt & Associates, P.C.

New Bedford, Massachusetts
December 24, 2010



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**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, 2010. 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.

In our opinion, 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, 2010.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Center'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 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 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.

Modgson Pratt & Associates, P.C.

New Bedford, Massachusetts
December 24, 2010

LOWELL COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2010

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' 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 weakness(es)? _____yes X none reported

Noncompliance material to 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 weakness(es)? _____yes X none reported

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

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

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.703

ARRA – Grants to Health Center Programs

93.224

Consolidated Health Centers

93.191

Patient Navigator and Chronic Disease Prevention Program

93.570

Community Services Block Grant Discretionary Awards

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

Auditee qualified as low-risk? _____yes X no

LOWELL COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2010

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, 2010

SECTION III – FEDERAL AWARD FINDINGS and QUESTIONED COSTS

Current Year

None.

Prior 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 was non-compliant with the funding requirement.

Current Status: The Health Center is in compliance with this requirement in the current year.

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.

Current Status: The Health Center is in compliance with this requirement in the current year.