

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)



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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
University Community Health Services, Inc.:

Report on the 2015 Financial Statements

We have audited the accompanying financial statements of University Community Health Services, Inc., (the "Organization") which comprise the statement of financial position as of June 30, 2015, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 2015 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 2015 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 2015 financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of University Community Health Services, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Organization as of and for the year ended June 30, 2014 were audited by other auditors whose report dated October 28, 2014 expressed an unmodified opinion on those statements.

Other Matter

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

LBMC, PC

Brentwood, Tennessee
November 9, 2015

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Statements of Financial Position

June 30, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 461,889	\$ 265,727
Patient accounts receivable, net	389,246	450,086
Contract services and other grants receivable	151,447	408,842
Prepaid expenses and other	<u>31,209</u>	<u>46,623</u>
Total current assets	1,033,791	1,171,278
Deposits	10,379	18,310
Property and equipment, net	<u>571,921</u>	<u>750,093</u>
	<u>\$ 1,616,091</u>	<u>\$ 1,939,681</u>

Liabilities and Net Assets

Current liabilities:		
Current portion of capital lease obligation	\$ 5,083	\$ -
Accounts payable and accrued expenses	298,859	450,274
Accrued payroll and related benefits	258,280	254,815
Deferred revenue	28,699	32,400
Deferred rent, current portion	<u>1,181</u>	<u>3,677</u>
Total current liabilities	592,102	741,166
Deferred rent, net of current portion	7,753	17,450
Capital lease obligation, excluding current portion	4,618	-
Other long-term liabilities	<u>1,077</u>	<u>-</u>
Total liabilities	605,550	758,616
Net assets - unrestricted	<u>1,010,541</u>	<u>1,181,065</u>
	<u>\$ 1,616,091</u>	<u>\$ 1,939,681</u>

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Statements of Operations and Changes in Net Assets

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted revenue, grants and other support:		
Net patient service revenue	\$ 1,883,972	\$ 2,823,934
DHHS grants	1,238,892	938,570
Contract services and other grants	2,810,533	4,179,416
Contributions and other	26,806	57,727
In-kind contributions	<u>102,732</u>	<u>24,738</u>
Total revenue, grants and other support	<u>6,062,935</u>	<u>8,024,385</u>
Expenses:		
Salaries, wages and benefits	3,559,583	3,686,078
Contract services	627,876	2,661,209
Medical supplies	268,422	347,261
Building and equipment rental	179,556	203,162
Provision for bad debts	72,405	114,764
Depreciation	201,602	202,284
Professional fees	437,276	631,425
Technology services	320,095	213,534
Telephone	71,053	63,295
Insurance	74,362	56,617
Building services	81,415	120,989
Office and administrative	111,609	79,774
Marketing and promotion	66,544	46,715
Other	86,057	148,511
Loss on disposal of property and equipment	<u>75,604</u>	<u>7,292</u>
Total expenses	<u>6,233,459</u>	<u>8,582,910</u>
Change in net assets	(170,524)	(558,525)
Net assets at beginning of year	<u>1,181,065</u>	<u>1,739,590</u>
Net assets at end of year	<u>\$ 1,010,541</u>	<u>\$ 1,181,065</u>

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>(170,524)</u>	\$ <u>(558,525)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	201,602	202,284
Loss on disposal of property and equipment	75,604	7,292
Provision for bad debts	72,405	114,764
In-kind donation of property and equipment	(66,825)	-
Changes in assets and liabilities:		
Patient accounts receivable	(11,565)	71,209
Contract service and grants receivable	257,395	(15,283)
Prepaid expenses and other assets	23,345	(21,799)
Accounts payable and accrued expenses	(151,415)	(98,572)
Accrued payroll and related benefits	3,465	66,490
Deferred revenue	(3,701)	-
Deferred rent	(12,193)	21,127
Other long-term liabilities	<u>1,077</u>	<u>-</u>
Net cash provided (used) by operating activities	218,670	(211,013)
Cash flows from investing activities - purchases of property and equipment	(21,707)	(8,915)
Cash flows from financing activities - payments of capital leases	<u>(801)</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	196,162	(219,928)
Cash and cash equivalents at beginning of year	<u>265,727</u>	<u>485,655</u>
Cash and cash equivalents at end of year	\$ <u><u>461,889</u></u>	\$ <u><u>265,727</u></u>
Supplemental disclosure of non-cash activities:		
Equipment acquired through capital lease	\$ <u><u>10,502</u></u>	\$ <u><u>-</u></u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

June 30, 2015 and 2014

(1) Nature of operations

University Community Health Services, Inc. (the "Organization") operates community health centers located in Nashville, Metro, and Davidson County, Tennessee. The Organization provides a broad range of health services to a largely medically underserved population.

The Organization also has contracts with several area businesses to provide employee health clinics. The profits from these services are used to support the Organization's main mission of providing health services to the medically underserved population.

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Organization. The Organization is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

(2) Summary of significant accounting policies

(a) Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

(b) Financial statement presentation

The financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets - Net assets of the Organization that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets - Net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or by actions of the Organization. The Organization does not have temporarily restricted net assets.

Permanently restricted net assets - Net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization does not have permanently restricted net assets.

Notes to the Financial Statements

June 30, 2015 and 2014

(c) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Cash and cash equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(e) Patient accounts receivable

The accounts receivable balance represents the unpaid amounts billed to patients and third-party payors. Contractual adjustments, discounts, and an allowance for doubtful accounts are recorded to report receivables for health care services at net realizable value. The Organization grants credit without collateral to its patients and does not accrue interest on any of its patient receivables.

(f) Allowance for doubtful accounts

The allowance for doubtful accounts is determined by management based on the Organization's historical losses, specific patient circumstances, and general economic conditions. Periodically, management reviews patient accounts receivable and records a provision for specific patients based on current circumstances and charges off the receivable against the allowance when attempts to collect the receivable have been unsuccessful. At June 30, 2015 and 2014, the allowance for doubtful accounts is \$91,439 and \$55,917, respectively.

(g) Contract service and grants receivable

Contract service and grants receivable consists of costs under contracts and grant agreements which were incurred prior to year-end for which reimbursement has not been received.

(h) Property and equipment

Property and equipment are stated at cost, or if donated to the Organization, at fair value on the date of acquisition. Additions and improvements over \$500 with an estimated useful life exceeding one year are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method ranging from five to fifteen years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvements or the term of the lease, whichever is shorter.

Notes to the Financial Statements

June 30, 2015 and 2014

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(i) Impairment of long-lived assets

On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2015 and 2014, management believes that no impairments existed.

(j) Deferred revenue

Deferred revenue consists of employer health contract funds received but not yet earned as of June 30, 2015 and 2014.

(k) Net patient service fees revenue

The Organization has agreements with third-party payors that provide for payments to the Organization in amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, discounted charges, and per diem payments. Net patient service fees revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Provision for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in the year of settlement and included in net patient service fees in the statements of operations and changes in net assets. The Organization provides care to certain patients under Medicaid and Medicare payment arrangements.

Law and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable allowances based on a sliding-fee scale deducted to arrive at net self-pay revenue.

Notes to the Financial Statements

June 30, 2015 and 2014

(l) Grant revenue

Grants are recognized as revenue when earned. Expense-driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. These grants and contracts require the Organization to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allocated under the grants.

(m) Contributions

Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as unrestricted.

(n) In-kind contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind contributions as both revenue and expense for the programs or activities benefited. For the years ended June 30, 2015 and 2014, in-kind contributions totaled \$102,732 and \$24,738, respectively. In-kind donations in 2015 relate to donated property and equipment and facility space. In-kind donations in 2014 related to donated facility space.

Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, or require special skills and are provided by individuals possessing such special skills and would typically need to be purchased by the Organization if they had not been donated.

Notes to the Financial Statements

June 30, 2015 and 2014

(o) Meaningful use revenue

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). These provisions were designed to increase the use of electronic health records ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible healthcare providers who adopt and meaningfully use certified EHR technology. Eligibility for annual Medicaid incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a six-year period. Initial Medicaid incentive payments are available to providers who adopt, implement, or upgrade certified EHR technology; but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments. Medicaid EHR incentive payments are fully funded by the federal government and administered by the states.

Using the grant accounting method of revenue recognition, the Organization recognized \$170,000 and \$165,750 of revenue included in contract services and other grants revenue for HITECH incentives from Medicaid during the years ended June 30, 2015 and 2014, respectively. The Organization has demonstrated meaningful use of certified EHR technology or has completed attestations to their adoption or implementation of certified EHR technology.

(p) Income taxes

The Organization is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Due to its tax-exempt status, the Organization is not generally subject to U.S. federal income tax or state income tax. The Organization's Form 990 has not been subject to examination by the Internal Revenue Service or the state of Tennessee for the last three years. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amounts accrued for interest and penalties at June 30, 2015 and 2014.

Notes to the Financial Statements

June 30, 2015 and 2014

(q) Reclassifications

Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on total net assets or the change in net assets.

(r) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2015 and November 9, 2015 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

The Organization generally maintains cash on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

(4) Patient accounts receivable

Patient accounts receivable, net, consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Medicare	\$ 30,240	\$ 22,627
Commercial	84,922	124,941
Self-pay	115,974	82,690
TennCare Managed Care plans	108,456	89,072
Medicaid Managed Care wraparound	108,508	147,306
TennCare Department of Health - Essential Access Pool	<u>32,585</u>	<u>39,367</u>
	480,685	506,003
Less: allowance for doubtful accounts	<u>91,439</u>	<u>55,917</u>
	<u>\$ 389,246</u>	<u>\$ 450,086</u>

(5) Contract services and other grants receivable

Contract services and other grants receivable consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Employer Health	\$ 148,251	\$ 378,550
Other	<u>3,196</u>	<u>30,292</u>
	<u>\$ 151,447</u>	<u>\$ 408,842</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2015 and 2014

(6) Property and equipment

The Organization's property and equipment and the related accumulated depreciation at June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 113,936	\$ 72,523
Leasehold improvements	1,365,996	1,531,698
Office and medical equipment	228,191	297,747
Computer equipment	<u>239,472</u>	<u>290,447</u>
	1,947,595	2,192,415
Accumulated depreciation	<u>(1,375,674)</u>	<u>(1,442,322)</u>
	<u>\$ 571,921</u>	<u>\$ 750,093</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$201,602 and \$202,284, respectively.

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to the Organization or third parties.

(7) Line of credit

During 2014, the Organization entered into a \$500,000 revolving line of credit with SunTrust Bank, Nashville, Tennessee. Interest was payable monthly at 3.00% above the one-month LIBOR rate, or 3.15% at June 30, 2014. The revolving line of credit expired in March 2015. There were no outstanding borrowings on this revolving line of credit at June 30, 2014. At maturity, the terms of the revolving line of credit were amended, reducing the maximum amount from \$500,000 to \$250,000. The amendment also makes the revolving line of credit due on demand, with no maturity date. Interest is payable monthly at 3.00% above the one-month LIBOR rate, or 3.19% at June 30, 2015. There are no outstanding borrowings on this revolving line of credit at June 30, 2015. The revolving line of credit is collateralized by substantially all of the Organization's assets.

(8) Capital lease obligations

The Organization has entered into a capital lease agreement to finance the acquisition of certain assets.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2015 and 2014

The Organization's obligation under the capital lease at June 30, 2015 is as follows:

Minimum lease payments payable	\$ 10,607
Less: portion representing interest	<u>906</u>
Capital lease obligations	9,701
Less: current portion	<u>5,083</u>
Long-term portion	\$ <u><u>4,618</u></u>

Future minimum annual lease payments payable under the capital lease as of June 30, 2015 are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 5,786
2017	<u>4,821</u>
Total minimum lease payments	10,607
Less amount representing interest	<u>906</u>
Present value of minimum lease payments under capital leases	9,701
Less current portion	<u>5,083</u>
Capital lease obligations, excluding current portion	\$ <u><u>4,618</u></u>

(9) Net patient service revenue

For the years ended June 30, 2015 and 2014, patient services consists of the following:

	<u>2015</u>			<u>2014</u>
	<u>Gross</u>	<u>Contractual</u>	<u>Net</u>	<u>Net</u>
	<u>Charges</u>	<u>Allowances</u>	<u>Revenue</u>	<u>Revenue</u>
Medicare	\$ 176,800	\$ 54,954	\$ 121,846	\$ 171,421
Commercial	947,662	472,689	474,973	1,022,705
Self-pay	986,712	837,482	149,230	243,450
TennCare Managed Care plans	<u>1,148,959</u>	<u>645,036</u>	<u>503,923</u>	<u>521,327</u>
	<u>\$ 3,260,133</u>	<u>\$ 2,010,161</u>	1,249,972	1,958,903
Medicaid Managed Care wraparound			497,314	643,565
Tennessee Department of Health Essential Access Pool			<u>136,686</u>	<u>221,466</u>
			<u>\$ 1,883,972</u>	<u>\$ 2,823,934</u>

Notes to the Financial Statements

June 30, 2015 and 2014

The Organization has agreements with third-party payors which provide for reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization's billings at list price and the amounts reimbursed by Medicare, Medicaid, and certain other third-party payors, and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: The Organization is paid for patient care services rendered to Medicare program beneficiaries primarily under contractual agreements with third-party Medicare Advantage plans.

For the years ended June 30, 2015 and 2014, the Organization recognized approximately 6% of net patient service revenue from services provided to Medicare beneficiaries.

TennCare Medicaid Managed Care, Other Third-Party Payors and Self-Pay: TennCare Medicaid provides additional wraparound reimbursement according to a cost-based reimbursement system, with a cap for federally qualified health centers. The Organization has also entered into reimbursement agreements with certain non-Medicaid commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per diem rates.

For the years ended June 30, 2015 and 2014, the Organization recognized approximately 94% of net patient services revenue from services provided to non-Medicare Managed Care patients.

There is at least a reasonable possibility that recorded Medicare and Medicaid estimates will change by a material amount in the near term. The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2015 and 2014

(10) DHHS grants

For the years ended June 30, 2015 and 2014, the Organization received the following grant revenue from the DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>2015</u>		<u>2014</u>
		<u>Total Grant</u>	<u>Revenue Recognized</u>	<u>Revenue Recognized</u>
6 H80CS08767	11/01/12 - 10/31/13	\$ 927,707	\$ -	\$ 326,377
6 H80CS08767	11/01/13 - 10/31/14	1,298,776	516,420	612,193
6 H80CS08767	11/01/14 - 2/29/16	<u>1,439,873</u>	<u>722,472</u>	-
		<u>\$ 3,666,356</u>	<u>\$ 1,238,892</u>	<u>\$ 938,570</u>

In March 2015, the Organization received notification that the grant period would be extended from October 31, 2015 to February 29, 2016. This extension resulted in additional grant funds of \$356,163 for the grant period. The Organization has received additional funds related to this grant period subsequent to year end. See note 16.

(11) Contract services and other grants

For the years ended June 30, 2015 and 2014, contract services and other grants revenue consists of the following:

	<u>2015</u>	<u>2014</u>
Employer Health	\$ 2,623,345	\$ 3,656,061
TennCare EHR Provider Incentive Program	170,000	165,750
Other	<u>17,188</u>	<u>357,605</u>
	<u>\$ 2,810,533</u>	<u>\$ 4,179,416</u>

(12) Retirement plan

The Organization has a defined contribution retirement plan covering eligible employees with one year of continuous service. This plan includes provisions for employee and matching employer contributions. Participant accounts under this plan are immediately 100% vested. Retirement plan expense amounted to \$64,435 and \$65,700 for the years ended June 30, 2015 and 2014, respectively.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2015 and 2014

(13) Vanderbilt University Medical Center

The Organization had a contract with Vanderbilt University Medical Center ("Vanderbilt") for contracted clinical provider services/staffing that was terminated by the Organization effective September 30, 2014. At that time, there were various transactions between the Organization and Vanderbilt for these services. The cost of these services is included in contract services on the accompanying statements of operations and changes in net assets and totaled \$435,830 and \$2,335,570 for the years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, the Organization owed Vanderbilt approximately \$150,000 and \$300,000, respectively, for contractual clinical provider staffing services provided.

(14) Commitments and contingencies

Medical Malpractice: The Organization maintains its medical malpractice coverage under the Federal Tort Claims Act (the "FTCA"). The FTCA provides malpractice coverage to eligible U.S. Public Health Service-supported programs and applies to the Organization and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

Operating leases: The Organization operates out of two clinic facilities. One facility is donated and recorded as in-kind. One facility is operated under a cancelable operating lease which requires a one-year notice before the Organization is allowed to terminate the agreement. The Organization also has various equipment leases. Leases terminate at various times through April 2019. Rent expense totaled \$179,556 and \$203,162 for the years ended June 30, 2015 and 2014, respectively. One of the leases contains escalating payments that have been recorded on a straight-line basis in accordance with accounting standards for leases, resulting in a deferred rent balance of \$8,934 at June 30, 2015. The Organization had two leasing arrangements which contained escalating payments that were recorded on a straight-line basis in accordance with accounting standards for leases at June 30, 2014, which resulted in a deferred rent balance of \$21,127.

Approximate future minimum lease payments under operating leases consist of the following at June 30, 2015:

2016	\$	86,000
2017		88,000
2018		88,000
2019		<u>23,000</u>
	\$	<u>285,000</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2015 and 2014

(15) Functional expenses

The Organization provides general health care services to patients within its geographic location. Functional expenses categorized by program and supporting services for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 4,925,790	\$ 6,832,008
General and administrative	<u>1,257,669</u>	<u>1,750,902</u>
	<u>\$ 6,183,459</u>	<u>\$ 8,582,910</u>

(16) Subsequent event

Subsequent to year end, the Organization has been awarded approximately \$431,000 of additional grant funds from DHHS related to the November 1, 2014 through February 29, 2016 grant period.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<u>Program Title</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning Receivable</u>	<u>Cash Receipts</u>	<u>Expenditures /Revenue</u>	<u>Ending Receivable</u>
U.S. Department of Health and Human Services:						
Consolidated Health Centers:						
Health Center Cluster	93.224	H80CS08767	\$ -	\$ 558,192	\$ 558,192	\$ -
Affordable Care Act Grants under the Health Center Program	93.527	H80CS08767	-	680,700	680,700	-
Total Health Center Cluster			\$ -	\$ 1,238,892	\$ 1,238,892	\$ -

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Organization for the year ended June 30, 2015 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 the Schedule may differ from amounts presented in or used in the preparation of the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Schedule of State Financial Assistance

Year ended June 30, 2015

<u>State Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning Receivable</u>	<u>Cash Receipts</u>	<u>Expenditures /Revenue</u>	<u>Ending Receivable</u>
Tennessee Department of Health:						
Essential Access Pool	N/A	GR-10-29132-00	\$ <u>39,367</u>	\$ <u>143,468</u>	\$ <u>136,686</u>	\$ <u>32,585</u>
Total state financial assistance			\$ <u>39,367</u>	\$ <u>143,468</u>	\$ <u>136,686</u>	\$ <u>32,585</u>

Note 1 - Basis of presentation

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of the Organization for the year ended June 30, 2015 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 the Schedule may differ from amounts presented in or used in the preparation of the financial statements.

Independent Auditors' 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

The Board of Directors of
University Community Health Services, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University Community Health Services, Inc. (the "Organization"), which comprise the balance sheet as of June 30, 2015, and the related statements of operations and net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

LBMC, PC

Brentwood, Tennessee
November 9, 2015

Independent Auditors' Report on Compliance For Each Major Federal Program and on Internal Control
Over Compliance Required by OMB Circular A-133

The Board of Directors of
University Community Health Services, Inc.:

Report on Compliance for Each Major Federal Program

We have audited University Community Health Services, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* ("OMB Circular A-133") that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2015. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

LBMC, PC

Brentwood, Tennessee
November 9, 2015

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

(1) SUMMARY OF AUDITORS' RESULTS

- (a) The independent auditors' report expressed an unmodified opinion on the financial statements.
- (b) No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditors' 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*.
- (c) No instances of noncompliance material to the financial statements of the Organization, which would be required to be reported in accordance with *Government Accounting Standards*, were disclosed during the audit.
- (d) No significant deficiencies or material weaknesses relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.
- (e) The independent auditors' report on compliance for the major federal award program for the Organization expresses an unmodified opinion.
- (f) There are no audit findings relative to the federal award programs for the Organization which are required to be reported under Section 510(a) of OMB Circular A-133.
- (g) The programs tested as major programs included:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224 and 93.527	Health Center Cluster
- (h) The threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Organization qualified as a low-risk auditee.

(2) FINDINGS RELATING TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None noted

(3) FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

None noted

(4) PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None noted