

**UNIVERSITY COMMUNITY
HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

As of and for the Years Ended June 30, 2020 and 2019

And Report of Independent Auditor

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D/B/A CONNECTUS HEALTH
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Report of Independent Auditor

To the Board of Directors
University Community Health Services, Inc.
d/b/a Connectus Health
Nashville, Tennessee

We have audited the accompanying financial statements of University Community Health Services, Inc., d/b/a Connectus Health (the "Organization"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the years 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit 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 Organization'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 Organization'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Community Health Services, Inc., d/b/a Connectus Health, as of June 30, 2020 and 2019, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 audits of the financial statements and certain additional 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 17, 2020 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 solely 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 effectiveness of the Organization's 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.

Emphasis of Matter

As discussed in Note 17, toward the end of December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. During 2020, there have been various mandates and/or requests from federal, state, and local authorities resulting in closures of non-essential businesses. Although it is not possible to reliably estimate the length or severity of this outbreak and, hence, its financial impact, any significant reduction in public support and resources caused by COVID-19 could negatively affect support and revenue and have other material adverse effects on University Community Health Services, Inc., d/b/a Connecticut Health. Our opinion is not modified with respect to this matter.



Nashville, Tennessee
November 17, 2020

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current Assets:		
Cash	\$ 2,046,550	\$ 994,575
Patient accounts receivable, net	387,824	469,205
Contract services and other grants receivable	306,413	317,324
Prepaid expenses and other	79,331	96,929
Total Current Assets	2,820,118	1,878,033
Deposits	12,182	12,182
Property and equipment, net	90,640	129,808
Total Assets	\$ 2,922,940	\$ 2,020,023
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of capital lease obligations	\$ 17,181	\$ 50,418
Accounts payable and accrued expenses	167,323	114,797
Accrued payroll and related benefits	159,503	145,766
Deferred rent	1,167	2,567
Total Current Liabilities	345,174	313,548
Deferred revenue	892,004	-
Capital lease obligations, excluding current portion	-	9,179
Other long-term liabilities	7,218	5,291
Total Liabilities	1,244,396	328,018
Net Assets:		
Without donor restrictions	1,627,945	1,666,406
With donor restrictions	50,599	25,599
Total Net Assets	1,678,544	1,692,005
Total Liabilities and Net Assets	\$ 2,922,940	\$ 2,020,023

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Grants, and Other Support:			
DHHS grants	\$ 2,648,932	\$ -	\$ 2,648,932
Contract services and other grants	2,059,739	25,000	2,084,739
Patient service revenue, net of contractual adjustments	1,971,485	-	1,971,485
In-kind contributions	80,908	-	80,908
Miscellaneous	61,133	-	61,133
Net assets released from restrictions	-	-	-
Total Revenue, Grants, and Other Support	<u>6,822,197</u>	<u>25,000</u>	<u>6,847,197</u>
Expenses:			
Salaries, wages, and benefits	4,469,066	-	4,469,066
Professional fees	621,656	-	621,656
Technology services	420,571	-	420,571
Medical supplies	306,038	-	306,038
Contract services	274,490	-	274,490
Building and equipment rental	111,639	-	111,639
Marketing and promotion	109,476	-	109,651
Building services	109,651	-	109,476
Telephone	86,002	-	86,002
Depreciation	79,598	-	79,598
Employee recruiting and retention	73,190	-	73,190
Insurance	66,533	-	66,533
Office and administrative	51,446	-	51,446
Other	48,123	-	48,123
Meals and entertainment	19,188	-	19,188
Repairs and maintenance	13,991	-	13,991
Total Expenses	<u>6,860,658</u>	<u>-</u>	<u>6,860,658</u>
Changes in net assets	(38,461)	25,000	(13,461)
Net assets, beginning of year	<u>1,666,406</u>	<u>25,599</u>	<u>1,692,005</u>
Net assets, end of year	<u>\$ 1,627,945</u>	<u>\$ 50,599</u>	<u>\$ 1,678,544</u>

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

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Grants, and Other Support:			
Patient service revenue, net of contractual adjustments	\$ 2,393,400	\$ -	\$ 2,393,400
Contract services and other grants	2,045,442	50,000	2,095,442
DHHS grants	1,886,367	-	1,886,367
Miscellaneous	104,425	-	104,425
In-kind contributions	85,597	-	85,597
Net assets released from restrictions	24,401	(24,401)	-
Total Revenue, Grants, and Other Support	6,539,632	25,599	6,565,231
Expenses:			
Salaries, wages, and benefits	4,105,359	-	4,105,359
Professional fees	512,230	-	512,230
Medical supplies	313,540	-	313,540
Contract services	266,041	-	266,041
Technology services	247,580	-	247,580
Depreciation	169,774	-	169,774
Building services	154,400	-	154,400
Marketing and promotion	103,109	-	103,109
Building and equipment rental	102,955	-	102,955
Telephone	85,279	-	85,279
Employee recruiting and retention	78,573	-	78,573
Office and administrative	58,574	-	58,574
Insurance	49,899	-	49,899
Meals and entertainment	27,518	-	27,518
Repairs and maintenance	17,083	-	17,083
Other	44,996	-	44,996
Total Expenses	6,336,910	-	6,336,910
Changes in net assets	202,722	25,599	228,321
Net assets, beginning of year	1,463,684	-	1,463,684
Net assets, end of year	\$ 1,666,406	\$ 25,599	\$ 1,692,005

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

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services			Supporting Services	
	Employer			General and	
	FQHC	Health	Subtotal	Administrative	Total
Salaries, wages, and benefits	\$ 2,547,368	\$ 1,027,885	\$ 3,575,253	\$ 893,813	\$ 4,469,066
Professional fees	246,975	36,214	283,189	338,467	621,656
Technology services	25,234	29,440	54,674	365,897	420,571
Medical supplies	249,234	56,804	306,038	-	306,038
Contract services	167,637	30,833	198,470	76,020	274,490
Building and equipment rental	-	-	-	111,639	111,639
Building services	35,935	-	35,935	73,716	109,651
Marketing and promotion	10,021	54,836	64,857	44,619	109,476
Telephone	71,382	6,880	78,262	7,740	86,002
Depreciation	-	-	-	79,598	79,598
Employee recruiting and retention	32,187	-	32,187	41,003	73,190
Insurance	-	-	-	66,533	66,533
Office and administrative	38,898	2,101	40,999	10,447	51,446
Other	-	-	-	48,123	48,123
Meals and entertainment	6,422	-	6,422	12,766	19,188
Repairs and maintenance	-	-	-	13,991	13,991
	<u>\$ 3,431,293</u>	<u>\$ 1,244,993</u>	<u>\$ 4,676,286</u>	<u>\$ 2,184,372</u>	<u>\$ 6,860,658</u>

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

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Services			Supporting Services	
	FQHC	Employer Health	Subtotal	General and Administrative	Total
Salaries, wages, and benefits	\$ 2,354,846	\$ 944,837	\$ 3,299,683	\$ 805,676	\$ 4,105,359
Professional fees	216,167	30,489	246,656	265,574	512,230
Medical supplies	255,262	58,278	313,540	-	313,540
Contract services	160,845	30,019	190,864	75,177	266,041
Technology services	14,855	17,331	32,186	215,394	247,580
Depreciation	-	-	-	169,774	169,774
Marketing and promotion	13,254	72,037	85,291	69,109	154,400
Building services	29,414	-	29,414	73,695	103,109
Building and equipment rental	-	-	-	102,955	102,955
Telephone	71,060	6,914	77,974	7,305	85,279
Employee recruiting and retention	33,104	-	33,104	45,469	78,573
Office and administrative	43,728	1,959	45,687	12,887	58,574
Insurance	-	-	-	49,899	49,899
Other	19,465	-	19,465	25,531	44,996
Meals and entertainment	8,400	-	8,400	19,118	27,518
Repairs and maintenance	-	-	-	17,083	17,083
	<u>\$ 3,220,400</u>	<u>\$ 1,161,864</u>	<u>\$ 4,382,264</u>	<u>\$ 1,954,646</u>	<u>\$ 6,336,910</u>

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

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Changes in net assets	\$ (13,461)	\$ 228,321
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,598	169,774
Changes in assets and liabilities:		
Patient accounts receivable	81,381	(115,227)
Contract service and grants receivable	10,911	(27,975)
Prepaid expenses and other assets	17,598	(5,833)
Accounts payable and accrued expenses	52,526	(58,144)
Accrued payroll and related benefits	13,737	26,506
Deferred revenue	892,004	(684)
Deferred rent	(1,400)	1,752
Other long-term liabilities	1,927	-
Net cash provided by operating activities	<u>1,134,821</u>	<u>218,490</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(40,430)</u>	<u>(35,030)</u>
Net cash used in investing activities	<u>(40,430)</u>	<u>(35,030)</u>
Cash flows from financing activities:		
Payments of capital leases	<u>(42,416)</u>	<u>(50,208)</u>
Net cash used in financing activities	<u>(42,416)</u>	<u>(50,208)</u>
Increase in cash	1,051,975	133,252
Cash, beginning of year	994,575	861,323
Cash, end of year	<u>\$ 2,046,550</u>	<u>\$ 994,575</u>

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

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of operations

University Community Health Services, Inc., d/b/a Connectus Health, (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. In May 2017, the Organization rebranded as Connectus Health to better reflect its comprehensive mission and reach.

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. A major reduction of funds by this grantor could have a significant effect on future operations.

Note 2—Summary of significant accounting policies

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of operations and changes in net assets as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with U.S. 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.

Cash – For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts, and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash.

Liquidity – Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash and liabilities are presented according to their maturity resulting in use of cash.

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 healthcare 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.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 2—Summary of significant accounting policies (continued)

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.

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.

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 3 to 15 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.

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.

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.

Laws 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.

Sliding Fees – The Organization provides care to patients who meet certain financial criteria under its sliding fees policy at amounts less than its established rates similar to a charity care policy. Because the Organization does not pursue collection of charges discounted under its sliding fees policy, they are not reported as revenue.

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.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 2—Summary of significant accounting policies (continued)

Contributions – Contributions are recognized when received as contributions without restriction if specified for the current period and there are no donor-imposed restrictions. Contributions specified for future periods or with donor-imposed restrictions are recognized in the period received as contributions with restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions are satisfied in the year in which the contributions are recognized.

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, 2020 and 2019, in-kind contributions totaled \$80,908 and \$85,597, respectively. In-kind donations in 2020 and 2019 relate to donated lab fees and 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.

Deferred Revenue – Deferred revenue consists of funds received but not yet earned. Deferred revenue at June 30, 2020 consists of Payroll Protection Funds (Note 9) and COVID relief funding not yet expended at year-end.

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.

Allocation of Functional Expenses – Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. Expenses that were allocated consist primarily of salary and related expenses which have been allocated based on time incurred and spent.

Recently Adopted Accounting Pronouncements – In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The Organization evaluated the new standard and determined that the accounting standard did not require a change to the Organization’s practices for recording contributions.

Accounting Policies for Future Pronouncements – In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the year ending June 30, 2021. The Organization is currently evaluating the effect of the implementation of this new standard.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 2—Summary of significant accounting policies (continued)

In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the fiscal year ending June 30, 2022. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent Events – The Organization has evaluated subsequent events through November 17, 2020, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

Note 3—Liquidity and availability

The main mission of the Organization is to provide a broad range of health services to a largely medically underserved population. The Organization considers all normal operating expenses incurred to support this mission to be general expenditures. Expenses incurred to support certain donor-specified purposes, using donor-restricted funds, are not considered to be general expenditures. The table below represents financial assets available for general expenditures within one year at June 30, 2020 and 2019:

Financial assets at year-end:	2020	2019
Cash and cash equivalents	\$ 2,046,550	\$ 994,575
Patient accounts receivable, net	387,824	469,205
Contract services and other grants receivable	306,413	317,324
Total financial assets	2,740,787	1,781,104
Less amounts not available to be used for general expenditures within one year:		
Net assets restricted for specific programs	(25,000)	(25,599)
Financial assets available to meet general expenditures within one year	\$ 2,715,787	\$ 1,755,505

The Organization is substantially supported by federal grants. As part of the Organization's liquidity management, it structures financial assets to be available for general expenditures, liabilities, and other obligations as they come due. The Organization maintains a line of credit with a financial institution with a credit limit of \$250,000 as of June 30, 2020, which can be drawn upon if needed to support general expenditures (see Note 9).

Note 4—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. At June 30, 2020, the Organization had bank balances of approximately \$1,542,000 in excess of these limits.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 5—Patient accounts receivable, net

Patient accounts receivable, net, consists of the following at June 30:

	2020	2019
Medicare	\$ 30,575	\$ 18,533
Medicaid Managed Care wraparound	127,874	157,898
TennCare Manage Care plans	38,454	53,362
TennCare Department of Health - Essential Access Pool	27,679	55,743
Commercial	61,902	91,245
Self-pay	833,671	399,210
	1,120,155	775,991
Less allowance for doubtful accounts	(732,331)	(306,786)
	<u>\$ 387,824</u>	<u>\$ 469,205</u>

Note 6—Sliding fees

The Organization maintains records to identify and monitor the level of sliding fees it provides. These records include the amount of gross charges discounted for services and supplies furnished under its sliding fee policy, the estimated cost of these services and supplies, and equivalent service statistics.

The Organization's management estimates its cost of care provided under its sliding fees policy utilizing a calculated ratio of cost to gross charges multiplied by the Organization's gross charges discounted. The Organization's gross charges discounted include only services provided to patients who are unable to pay and qualify under the Organization's sliding fees policy. To the extent the Organization receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Organization does not include these patients' gross charges in its cost of care provided under its sliding fees policy.

The following information measures the level of charity care provided during the year ended June 30, 2020 under the sliding fee policy:

Gross charges discounted, at established rates	\$ 1,753,451
Estimated costs and expenses incurred to provide sliding fee discounts included in the statement of activities	\$ 1,122,469
Equivalent percentage of patients receiving sliding fees to all patients served	41%

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 7—Contract services and other grants receivable

Contract services and other grants receivable consists of the following at June 30:

	2020	2019
Employer Health	\$ 259,593	\$ 265,199
Other	46,820	52,125
	<u>\$ 306,413</u>	<u>\$ 317,324</u>

Note 8—Property and equipment

The Organization's property and equipment and the related accumulated depreciation at June 30 are as follows:

	2020	2019
Furniture and fixtures	\$ 134,650	\$ 132,645
Leasehold improvements	1,409,043	1,406,164
Office and medical equipment	229,141	203,093
Computer equipment	442,333	432,833
	2,215,167	2,174,735
Accumulated depreciation	<u>(2,124,527)</u>	<u>(2,044,927)</u>
	<u>\$ 90,640</u>	<u>\$ 129,808</u>

In the event the DHHS grants are terminated, the DHHS reserves the right to request all property and equipment purchased with grant funds be returned to the DHHS from the Organization.

Note 9—Payroll Protection Program Loan

The Organization received a Paycheck Protection Program ("PPP") loan in the amount of \$764,500. The PPP loan is granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). PPP loans are considered conditional contributions under Accounting Standards Codification 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if the Organization does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage, interest, rent, and utilities. The Organization has deferred recognition of the grant revenue for the year ended June 30, 2020, because the conditions for forgiveness have not been substantially met.

Note 10—Line of credit

The Organization has a \$250,000 revolving line of credit with SunTrust Bank. Interest on the revolving line of credit is payable monthly at 3.0% above the one-month LIBOR rate, or 5.4%, at June 30, 2020. The revolving line of credit is due on demand, with no maturity date. There were no outstanding borrowings on the revolving line of credit at June 30, 2020 and 2019. The revolving line of credit is collateralized by substantially all of the Organization's assets.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 11—Capital lease obligations

The Organization has entered into capital lease agreements to finance the acquisition of certain assets. The Organization's obligations under capital leases at June 30 are summarized as follows:

	2020	2019
Minimum lease payments payable	\$ 17,181	\$ 60,684
Less portion representing interest	(81)	(1,087)
Capital lease obligations	17,100	59,597
Less current portion	(17,100)	(50,418)
Long-term portion	\$ -	\$ 9,179

Note 12—Net patient service revenue

For the years ended June 30, 2020 and 2019, patient service revenue consists of the following:

	2020			2019
	Gross Charges	Charitable and Contractual Allowances	Net Revenue	Net Revenue
Medicare	\$ 357,666	\$ 236,172	\$ 121,494	\$ 88,232
TennCare Managed Care plans	1,728,308	1,426,680	301,628	549,847
Commercial	1,345,825	867,839	477,986	896,909
Behavioral health	89,538	74,550	14,988	-
Self-pay	2,094,159	1,710,499	383,660	95,812
	<u>\$ 5,615,496</u>	<u>\$ 4,315,740</u>	1,299,756	1,630,800
Medicaid Manage Care wraparound			527,760	654,317
Tennessee Department of Health Essential Access Pool			143,969	108,283
			<u>\$ 1,971,485</u>	<u>\$ 2,393,400</u>

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.

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.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 12—Net patient service revenue (continued)

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 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.

Note 13—Contract services and other grants revenue

For the years ended June 30, 2020 and 2019, contract services and other grants revenue consists of the following:

	2020	2019
Employer Health	\$ 1,575,794	\$ 1,672,224
CHIP Cover Kids	226,143	244,422
Per Member Per Month PCMP	102,288	120,708
Quality Incentive	98,054	8,088
Covid relief	50,000	-
American Cancer Society - NFL grant	25,000	50,000
Other	7,460	-
	<u>\$ 2,084,739</u>	<u>\$ 2,095,442</u>

Note 14—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 \$70,366 and \$68,024 for the years ended June 30, 2020 and 2019, respectively, and are included in salaries, wages, and benefits in the accompanying statements of operations and changes in net assets.

Note 15—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. The Organization’s FTCA coverage has been approved through December 31, 2020.

Healthcare Industry – Management continues to implement policies, procedures, and compliance overview organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 and other government statutes and regulations. The Organization’s compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 15—Commitments and contingencies (continued)

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare, TennCare, fraud, and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes the Organization is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Healthcare Reform – In March 2010, Congress adopted comprehensive healthcare insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the “Health Care Reform Legislation”). The Health Care Reform Legislation, among other matters, is designed to expand access to healthcare coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding healthcare policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation which may impact the TennCare program. While the full impact of the Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance, and managed competition may materially impact the Organization’s operations.

Operating Leases – The Organization operates out of two clinic facilities. One facility is donated and recorded as in-kind. The other facility is operated under a cancelable operating lease which expires in July 2021. The Organization also has various equipment leases, which terminate at various times through March 2021. Rent expense totaled \$111,639 and \$102,955 for the years ended June 30, 2020 and 2019, 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 \$1,167 and \$2,567 at June 30, 2020 and 2019, respectively.

Approximate future minimum lease payments under operating leases with noncancelable lease terms in excess of one year consists of the following at June 30, 2020:

Years Ending June 30,

2021	\$ 66,687
2022	5,577
	<u>\$ 72,264</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 16—Net assets with donor restrictions

Net assets with donor restrictions consists of the following at June 30:

	2020	2019
American Cancer Society - NFL Grant	<u>\$ 50,599</u>	<u>\$ 25,599</u>

Note 17—Uncertainty

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak has caused a material, adverse impact on the economic and market conditions. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material, adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Organization, its performance, and its financial results.

SUPPLEMENTAL INFORMATION

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2020

Grant Description	CFDA Number	Grant Number	Expenditures
Federal Awards:			
U.S. Department of Health and Human Services:			
Health Center Cluster:			
Health Center Program	93.224	H80CS08767	\$ 794,935
Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding	93.224	H8DCS36025	219,663
FY 2020 Expanding Capacity for Coronavirus Testing	93.224	H8ECS38553	16,165
FY 2020 Coronavirus Supplemental Funding for Health Centers	93.224	H8CCS35306	<u>65,206</u>
Total for CFDA No 93.224			1,095,969
Affordable Care Act			
Grants under the Health Center Program	93.527	H80CS08767	<u>1,552,963</u>
Total Health Center Cluster			<u>2,648,932</u>
Total Federal Awards			<u>2,648,932</u>
State Awards:			
Tennessee Department of Health:			
Health Care Safety Net Primary Care Services	N/A	41703	<u>143,969</u>
Total State Awards			<u>143,969</u>
Total Federal and State Awards			<u>\$ 2,792,901</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

D/B/A CONNECTUS HEALTH

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

JUNE 30, 2020

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of the Organization for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") as codified by DHHS at 45 CFR Part 75 and the state of Tennessee. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, operations and changes in net assets, or cash flows of the Organization.

Note 2—Summary of significant accounting policies

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization did not expend any federal or state awards during fiscal year 2020 in the form of noncash assistance.

Note 3—Indirect cost rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
ROSTER OF OFFICIALS OF THE ORGANIZATION

JUNE 30, 2020

BOARD OF DIRECTORS

Amy Radcliff – President

Brent Taylor

Shana Berkley

Kevin Conard

Ebony Gilbert

Collins de la Cour

Jaime Combs

Yuri Cunza

Pamela Johnson

Loraine Segovia

MEMBERS OF MANAGEMENT

Carolina Portis-Jenkins – Co-CEO, Director of On Site Clinics & Employer Health Services

Suzanne Hurley – Co-CEO, Director of Community & Women's Health Services

Valerie Butt – CFO

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

To the Board of Directors
University Community Health Services, Inc.
d/b/a Connectus Health
Nashville, Tennessee

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., d/b/a Connectus Health, (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2020.

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") as a basis for designing 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.



Nashville, Tennessee
November 17, 2020

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
University Community Health Services, Inc.
d/b/a Connectus Health
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited University Community Health Services, Inc.'s, d/b/a Connectus Health (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2020. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 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 Each 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, 2020.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Nashville, Tennessee
November 17, 2020

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
(D/B/A CONNECTUS HEALTH)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness identified?

___ yes X no

Significant deficiencies identified

___ yes X none reported

Noncompliance material to financial statements noted?

___ yes X no

Federal Awards

Internal control over major programs:

Material weakness identified?

___ yes X no

Significant deficiencies identified

___ yes X none reported

Type of auditor's report issued on compliance for
major programs:

Unmodified

Any audit findings disclosed that are required to be
reported in accordance 2 CFR 200.516(a)?

___ yes X no

Identification of major programs for the Organization for the fiscal year ended June 30, 2020 are:

 CFDA #
93.224 and 93.527

 Program Name
Health Center Cluster

Dollar threshold used to distinguish between Type A and
Type B Programs

\$ 750,000

Auditee qualified as low-risk auditee?

 X yes ___ no

Section II—Financial Statement Findings

None noted.

Section III—Federal Audit Findings and Questioned Costs

None noted.

Section IV—Prior Year Findings

None noted.