

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

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2022 and 2021

And Report of Independent Auditor

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
TABLE OF CONTENTS

ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF 1

REPORT OF INDEPENDENT AUDITOR..... 2-4

FINANCIAL STATEMENTS

 Statements of Financial Position 5

 Statements of Operations and Changes in Net Assets 6-7

 Statements of Functional Expenses 8-9

 Statements of Cash Flows..... 10

 Notes to the Financial Statements..... 11-21

SUPPLEMENTARY INFORMATION

 Schedule of Expenditures of Federal and State Awards..... 22

 Notes to the Schedule of Expenditures of Federal and State Awards 23

 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*..... 24-25

 Report of Independent Auditor on Compliance for Each Major Federal Program and
 on Internal Control over Compliance Required by the Uniform Guidance..... 26-28

 Schedule of Findings and Questioned Costs 29-30

 Corrective Action Plan 31

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
D/B/A CONNECTUS HEALTH
ROSTER OF DIRECTORS AND EXECUTIVE STAFF**

JUNE 30, 2022

BOARD OF DIRECTORS

Amy Radcliff – President

Brent Taylor

Shana Berkley

Yuri Cunza

Jaime Combs

Collins de la Cour

Ebony Gilbert

Pamela Johnson

Loraine Segovia

Pamela Pullen

Joseph Taylor

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

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

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of University Community Health Services, Inc., d/b/a Connectus Health (the “Organization”) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The Roster of the Board of Directors and Executive Staff is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Roster of the Board of Directors and Executive Staff has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, according, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2023 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.

Cherry Bekaert LLP

Nashville, Tennessee
May 11, 2023

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

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current Assets:		
Cash	\$ 1,690,490	\$ 1,824,150
Patient accounts receivable	849,175	596,860
Contract services and other grants receivable	308,852	293,548
Prepaid expenses and other assets	113,861	79,638
Total Current Assets	2,962,378	2,794,196
Deposits	10,379	10,379
Property and equipment, net	598,976	514,370
Total Assets	\$ 3,571,733	\$ 3,318,945
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of capital lease obligations	\$ 30,469	\$ 29,131
Accounts payable and accrued expenses	229,926	233,709
Accrued payroll and related benefits	235,756	206,399
Deferred rent	-	350
Total Current Liabilities	496,151	469,589
Deferred revenue	9,000	30,026
Capital lease obligations, excluding current portion	79,539	110,007
Other long-term liabilities	4,301	4,301
Total Liabilities	588,991	613,923
Net Assets:		
Without donor restrictions	2,982,742	2,705,022
With donor restrictions	-	-
Total Net Assets	2,982,742	2,705,022
Total Liabilities and Net Assets	\$ 3,571,733	\$ 3,318,945

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

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

YEAR ENDED JUNE 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Grants, and Other Support:			
DHHS grants	\$ 3,652,684	\$ -	\$ 3,652,684
Patient services, net of contractual adjustments	2,355,187	-	2,355,187
Contract services and other grants	1,655,948	-	1,655,948
Miscellaneous	51,795	-	51,795
Nonfinancial contributions	78,126	-	78,126
Net assets released from restrictions	-	-	-
Total Revenue, Grants, and Other Support	<u>7,793,740</u>	<u>-</u>	<u>7,793,740</u>
Expenses:			
Salaries, wages, and benefits	4,965,285	-	4,965,285
Professional fees	657,886	-	657,886
Technology services	372,221	-	372,221
Contract services	306,305	-	306,305
Medical supplies	311,790	-	311,790
Building and equipment rental	126,546	-	126,546
Building services	114,331	-	114,331
Marketing and promotion	109,736	-	109,736
Telephone	113,167	-	113,167
Employee recruiting and retention	95,380	-	95,380
Insurance	83,575	-	83,575
Depreciation	86,258	-	86,258
Other	85,571	-	85,571
Office and administrative	38,744	-	38,744
Repairs and maintenance	18,536	-	18,536
Meals and entertainment	30,689	-	30,689
Total Expenses	<u>7,516,020</u>	<u>-</u>	<u>7,516,020</u>
Changes in net assets	277,720	-	277,720
Net assets, beginning of year	<u>2,705,022</u>	<u>-</u>	<u>2,705,022</u>
Net assets, end of year	<u>\$ 2,982,742</u>	<u>\$ -</u>	<u>\$ 2,982,742</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
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Grants, and Other Support:			
DHHS grants	\$ 3,227,674	\$ -	\$ 3,227,674
Patient services, net of contractual adjustments	1,951,381	-	1,951,381
Contract services and other grants	1,811,249	25,000	1,836,249
Paycheck Protection Program	773,129	-	773,129
Miscellaneous	121,476	-	121,476
Nonfinancial contributions	78,188	-	78,188
Net assets released from restrictions	75,599	(75,599)	-
Total Revenue, Grants, and Other Support	<u>8,038,696</u>	<u>(50,599)</u>	<u>7,988,097</u>
Expenses:			
Salaries, wages, and benefits	4,640,551	-	4,640,551
Professional fees	648,419	-	648,419
Technology services	385,537	-	385,537
Contract services	258,638	-	258,638
Medical supplies	215,759	-	215,759
Building and equipment rental	117,859	-	117,859
Building services	113,238	-	113,238
Marketing and promotion	101,894	-	101,894
Telephone	96,621	-	96,621
Employee recruiting and retention	81,816	-	81,816
Insurance	75,497	-	75,497
Depreciation	71,503	-	71,503
Other	49,291	-	49,291
Office and administrative	48,328	-	48,328
Repairs and maintenance	30,729	-	30,729
Meals and entertainment	25,939	-	25,939
Total Expenses	<u>6,961,619</u>	<u>-</u>	<u>6,961,619</u>
Changes in net assets	1,077,077	(50,599)	1,026,478
Net assets, beginning of year	<u>1,627,945</u>	<u>50,599</u>	<u>1,678,544</u>
Net assets, end of year	<u>\$ 2,705,022</u>	<u>\$ -</u>	<u>\$ 2,705,022</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
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services			Supporting Services	Total
	FQHC	Employer Health	Subtotal	General and Administrative	
Salaries, wages, and benefits	\$ 2,830,212	\$ 1,142,016	\$ 3,972,228	\$ 993,057	\$ 4,965,285
Professional fees	244,083	39,733	283,816	374,070	657,886
Technology services	22,333	26,056	48,389	323,832	372,221
Contract services	190,815	36,472	227,287	79,018	306,305
Medical supplies	253,926	57,864	311,790	-	311,790
Building and equipment rental	-	-	-	126,546	126,546
Building services	67,236	-	67,236	47,095	114,331
Marketing and promotion	9,297	50,268	59,565	50,171	109,736
Telephone	93,929	9,053	102,982	10,185	113,167
Employee recruiting and retention	62,844	-	62,844	32,536	95,380
Insurance	26,143	-	26,143	57,432	83,575
Depreciation	21,356	-	21,356	64,902	86,258
Other	6,072	-	6,072	79,499	85,571
Office and administrative	28,514	1,456	29,970	8,774	38,744
Repairs and maintenance	3,177	-	3,177	15,359	18,536
Meals and entertainment	8,342	-	8,342	22,347	30,689
	<u>\$ 3,868,279</u>	<u>\$ 1,362,918</u>	<u>\$ 5,231,197</u>	<u>\$ 2,284,823</u>	<u>\$ 7,516,020</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
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program Services			Supporting Services	Total
	FQHC	Employer Health	Subtotal	General and Administrative	
Salaries, wages, and benefits	\$ 2,645,114	\$ 1,067,327	\$ 3,712,441	\$ 928,110	\$ 4,640,551
Professional fees	245,092	43,617	288,709	359,710	648,419
Technology services	23,132	26,988	50,120	335,417	385,537
Contract services	160,993	30,078	191,071	67,567	258,638
Medical supplies	176,045	39,714	215,759	-	215,759
Building and equipment rental	3,582	-	3,582	114,277	117,859
Building services	33,999	-	33,999	79,239	113,238
Marketing and promotion	9,085	47,589	56,674	45,220	101,894
Telephone	80,195	7,730	87,925	8,696	96,621
Employee recruiting and retention	50,459	-	50,459	31,357	81,816
Insurance	22,393	-	22,393	53,104	75,497
Depreciation	9,952	-	9,952	61,551	71,503
Other	6,482	-	6,482	42,809	49,291
Office and administrative	37,441	1,752	39,193	9,135	48,328
Repairs and maintenance	1,401	-	1,401	29,328	30,729
Meals and entertainment	4,128	-	4,128	21,811	25,939
	<u>\$ 3,509,493</u>	<u>\$ 1,264,795</u>	<u>\$ 4,774,288</u>	<u>\$ 2,187,331</u>	<u>\$ 6,961,619</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
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Changes in net assets	\$ 277,720	\$ 1,026,478
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	86,258	71,503
Gain on disposal of property and equipment	(100)	(800)
Changes in assets and liabilities:		
Patient accounts receivable, net	(252,315)	(209,036)
Contract service and other grants receivable	(15,304)	12,865
Prepaid expenses and other assets	(34,223)	(307)
Deposits	-	1,803
Accounts payable and accrued expenses	(3,783)	66,305
Accrued payroll and related benefits	29,357	46,896
Deferred revenue	(21,026)	(861,978)
Deferred rent	(350)	(817)
Other long-term liabilities	-	(2,917)
Net cash flows from operating activities	<u>66,234</u>	<u>149,995</u>
Cash flows from investing activities:		
Purchases of property and equipment	(170,763)	(338,313)
Net cash flows from investing activities	<u>(170,763)</u>	<u>(338,313)</u>
Cash flows from financing activities:		
Payment of capital leases	(29,131)	(34,082)
Net cash flows from financing activities	<u>(29,131)</u>	<u>(34,082)</u>
Change in cash	(133,660)	(222,400)
Cash, beginning of year	1,824,150	2,046,550
Cash, end of year	<u>\$ 1,690,490</u>	<u>\$ 1,824,150</u>
Supplemental disclosure on noncash financing and investing activities:		
Assets acquired through capital lease	<u>\$ -</u>	<u>\$ 137,906</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, 2022 AND 2021

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. At June 30, 2022 and 2021, there were no net assets subject to donor-imposed 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.

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

JUNE 30, 2022 AND 2021

Note 2—Summary of significant accounting policies (continued)

Patient Accounts Receivable and Allowance for Doubtful Accounts – The accounts receivable balance represents the unpaid amounts billed to patients and third-party payors. The Organization estimates allowance for uncollectible amounts and contractual allowances based upon factors which include, but are not limited to, historical payment trends, write-off experience, analyses of accounts receivable portfolios by payor source and the age of the receivable as well as a review of specific accounts, the terms of the agreement, the third-party payors' stated intent to pay, the payors' financial capacity to pay and other factors which may include likelihood and cost of litigation. The allowance for doubtful accounts reflects estimates that the Organization periodically reviews and revises based on new information, to which revisions may be material.

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. Property that exists under capital lease arrangements have been calculated at their respective net present value utilizing the lease term and associated interest rate and then are amortized over the lives of the respective leases or the estimated useful lives of the assets, 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 support with donor restrictions. 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 at 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.

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

JUNE 30, 2022 AND 2021

Note 2—Summary of significant accounting policies (continued)

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.

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.

Nonfinancial Contributions – In addition to receiving cash contributions, the Organization receives nonfinancial 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, 2022 and 2021, nonfinancial contributions totaled \$78,126 and \$78,188, respectively. Nonfinancial donations in 2022 and 2021 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.

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.

Subsequent Events – The Organization has evaluated subsequent events through May 11, 2023, 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.

Adoption of New Accounting Pronouncement – In September 2020, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU required not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. In addition, for each category of contributed nonfinancial assets recognized, certain additional disclosures are required. This standard is effective for the year ended June 30, 2022. There have been no donor restrictions placed on such contributions.

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

JUNE 30, 2022 AND 2021

Note 2—Summary of significant accounting policies (continued)

Accounting Policies for Future Pronouncement – 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 balance sheet 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 operations. This standard will be effective for the fiscal year ending June 30, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Note 3—Revenue recognition

The Organization follows FASB ASU 2014-09, *Revenue from Contracts with Customer (ASC Topic 606)*. Under Accounting Standards Codification (“ASC”) 606, revenue is recognized when the Organization transfers the promised goods or services to a customer in an amount that reflects consideration that is expected to be received for those goods and services.

The Organization recognized revenue for services in accordance with the following five steps outlined in ASC 606:

- Identification of the contract or contracts with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction prices
- Allocation of the transaction prices to the performance obligations in the contract
- Recognition of revenue when or as the Organization satisfies a performance obligation

The Organization has analyzed the provisions of ASC 606 has concluded the following:

Performance Obligations and Revenue Recognition – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue, when, or as, the performance obligation is satisfied. The contract obligation for patient services is generally satisfied at the time these services are provided.

Patient Services – A significant portion of the Organization’s revenue is derived from providing services to patients. Due to the nature of the services being provided, there are no variable considerations and only one performance obligation. Such revenue is conditioned upon meeting a certain performance obligation, and amounts received are recognized as revenue once the requirement has been met. Once the patient service is provided, the performance obligation is considered to have been met. Each service has a defined purchase price, and the transactions are considered to be contracts with patients/insurance providers as they have commercial substance through the transaction of cash payment in return for the services performed. The Organization earned revenue from providing services to patients with customers totaling \$2,355,187 and \$1,951,381 in the years ended June 30, 2022 and 2021, respectively.

Disaggregation of Revenue – See the statements of activities for the years ended June 30, 2022 and 2021, as well as Notes 13 and 14.

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

JUNE 30, 2022 AND 2021

Note 4—Liquidity and availability of resources

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 to meet cash needs for general expenditures within the next year include:

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,690,490	\$ 1,824,150
Patient accounts receivable	849,175	596,860
Contract services and other grants receivable	<u>308,852</u>	<u>293,548</u>
Financial assets	2,848,517	2,714,558
Less amounts not available to be used for general expenditures within one year:		
Net assets restricted for specific programs	<u>-</u>	<u>-</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 2,848,517</u>	<u>\$ 2,714,558</u>

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, 2022, which can be drawn upon if needed to support general expenditures (see Note 11).

Note 5—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, 2022 and 2021, the Organization had bank balances of approximately \$1,198,000 and \$1,355,000, respectively, in excess of these limits.

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

JUNE 30, 2022 AND 2021

Note 6—Patient accounts receivable, net

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

	2022	2021
Medicare	\$ 14,859	\$ 13,729
Medicaid Managed Care wraparound	525,189	318,597
TennCare Managed Care plans	56,987	67,732
TennCare Department of Health - Essential Access Pool	78,288	67,760
Commercial	42,179	53,447
Self-pay	131,673	75,595
	<u>\$ 849,175</u>	<u>\$ 596,860</u>

Note 7—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 under the sliding fee policy during the years ended June 30:

	2022	2021
Gross charges discounted, at established rates	\$ 1,313,708	\$ 1,225,044
Estimated costs and expenses incurred to provide sliding fee discounts included in the statement of activities	\$ 1,136,308	\$ 1,114,843
Equivalent percentage of patients receiving sliding fees to all patients served	31%	35%

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

JUNE 30, 2022 AND 2021

Note 8—Contract services and other grants receivable

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

	<u>2022</u>	<u>2021</u>
Employer Health	\$ 308,210	\$ 290,300
Other	642	3,248
	<u>\$ 308,852</u>	<u>\$ 293,548</u>

Note 9—Property and equipment, net

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

	<u>2022</u>	<u>2021</u>
Furniture and fixtures	\$ 134,650	\$ 134,650
Leasehold improvements	1,419,431	1,416,221
Office and medical equipment	309,872	296,554
Computer equipment	632,544	627,073
Mobile van	384,770	235,902
	<u>2,881,267</u>	<u>2,710,400</u>
Accumulated depreciation	<u>(2,282,291)</u>	<u>(2,196,030)</u>
	<u>\$ 598,976</u>	<u>\$ 514,370</u>

Depreciation expense related to fixed assets totaled \$86,258 and \$71,503 for the years ended June 30, 2022 and 2021, respectively. 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 10—Paycheck Protection Program loan

The Organization received a Paycheck Protection Program (“PPP”) loan in the amount of \$773,129. The PPP loan is granted by the Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). PPP loans are considered conditional contributions under ASC 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 received SBA forgiveness of the PPP loan in June 2021. Management recognized the full loan balance and accrued interest of \$773,129 of the PPP loan in the accompanying statement of operations and changes in net assets for the year ended June 30, 2021 based on eligible costs incurred prior to June 30, 2021.

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

JUNE 30, 2022 AND 2021

Note 11—Line of credit

The Organization has a \$250,000 revolving line of credit with Truist Bank. Interest on the revolving line of credit is payable monthly at 3.0% above the SOFR rate, or 4.5%, at June 30, 2022. 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, 2022 or 2021. The revolving line of credit is collateralized by substantially all of the Organization's assets.

Note 12—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:

	<u>2022</u>	<u>2021</u>
Minimum lease payments payable	\$ 118,887	\$ 153,682
Less portion representing interest	(8,879)	(14,544)
Capital lease obligations	110,008	139,138
Less current portion	(30,469)	(29,131)
Long-term portion	<u>\$ 79,539</u>	<u>\$ 110,007</u>

Note 13—Net patient service revenue

For the year ended June 30, 2022, patient service revenue consists of the following:

	<u>Gross Charges</u>	<u>Contractual Adjustments</u>	<u>Net Revenue</u>
Medicare	\$ 310,284	\$ 195,297	\$ 114,987
TennCare Managed Care plans	2,596,053	1,892,545	703,508
Commercial	1,248,175	847,119	401,056
Behavioral health	185,624	123,140	62,484
Self-pay	1,313,708	1,136,308	177,400
	<u>\$ 5,653,844</u>	<u>\$ 4,194,409</u>	1,459,435
Medicaid Managed Care wraparound			735,566
Tennessee Department of Health Essential Access Pool			160,186
			<u>\$ 2,355,187</u>

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

JUNE 30, 2022 AND 2021

Note 13—Net patient service revenue (continued)

For the year ended June 30, 2021 patient service revenue consists of the following:

	<u>Gross Charges</u>	<u>Contractual Adjustments</u>	<u>Net Revenue</u>
Medicare	\$ 417,114	\$ 280,468	\$ 136,646
TennCare Managed Care plans	2,495,447	1,785,979	709,468
Commercial	935,470	514,882	420,588
Behavioral health	147,556	100,609	46,947
Self-pay	1,197,137	1,236,034	(38,897)
	<u>\$ 5,192,724</u>	<u>\$ 3,917,972</u>	1,274,752
Medicaid Managed Care wraparound			468,664
Tennessee Department of Health Essential Access Pool			207,965
			<u>\$ 1,951,381</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.

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.

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

JUNE 30, 2022 AND 2021

Note 14—Contract services and other grants revenue

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

	<u>2022</u>	<u>2021</u>
Employer Health	\$ 1,414,587	\$ 1,469,229
Per Member Per Month PCMP	205,166	147,458
CHIP Cover Kids	-	127,751
Other	18,274	63,439
American Cancer Society - NFL grant	10,000	25,000
Quality Incentive	7,921	3,372
	<u>\$ 1,655,948</u>	<u>\$ 1,836,249</u>

Note 15—Contributed nonfinancial assets

Contributed nonfinancial assets received by the Organization are recorded based on their estimated value. The Organization received \$78,126 and \$78,188 during the years ended June 30, 2022 and 2021, respectively.

The Organization recognized nonfinancial assets within revenue as nonfinancial contributions. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed nonfinancial contributions for the years ended June 30, 2022 and 2021, respectively, consists of the following:

	<u>2022</u>	<u>2021</u>
Lab services	\$ 60,000	\$ 60,000
Donated facilities	16,632	16,632
Professional services	1,494	1,556
	<u>\$ 78,126</u>	<u>\$ 78,188</u>

The Organization valued the contributions based on estimated costs for these services.

Note 16—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 \$63,954 and \$141,324 for the years ended June 30, 2022 and 2021, respectively, and are included in salaries, wages, and benefits in the accompanying statements of operations and changes in net assets.

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

JUNE 30, 2022 AND 2021

Note 17—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, 2023.

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.

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 November 2023. The Organization also has various equipment leases, which terminate at various times through September 2025. Rent expense totaled \$126,546 and \$117,859 for the years ended June 30, 2022 and 2021, 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 \$-0- and \$350 at June 30, 2022 and 2021, respectively.

Approximate future minimum lease and commitment payments in excess of one year consists of the following at June 30, 2022:

Years Ending June 30,

2023

\$ 8,397

SUPPLEMENTARY INFORMATION

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

YEAR ENDED JUNE 30, 2022

<u>Grant Description</u>	<u>Assistance Listing Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Federal Awards:			
U.S. Department of Health and Human Services:			
Health Center Cluster:			
Health Center Program	93.224	H80CS08767	\$ 1,345,151
American Rescue Plan Act Funding	93.224	H8FCS41314	<u>1,614,576</u>
Total for CFDA No 93.224			<u>2,959,727</u>
Affordable Care Act:			
Grants under the Health Center Program	93.527	H80CS08767	<u>692,957</u>
Total for CFDA No 93.527			<u>692,957</u>
Total Health Center Cluster			<u>3,652,684</u>
Total Federal Awards			<u>3,652,684</u>
State Awards:			
Tennessee Department of Health:			
Health Care Safety Net Primary Care Services	N/A	78833	<u>160,186</u>
Total State Awards			<u>160,186</u>
Total Federal and State Awards			<u>\$ 3,812,870</u>

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

JUNE 30, 2022

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, 2022. 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 2022 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.

Note 4—Payments to subrecipients

The Organization did not passthrough any federal awards to subrecipients.

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, 2022, 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 May 11, 2023.

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 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 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.

Cherry Bekaert LLP

Nashville, Tennessee

May 11, 2023

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

Opinion on Each Major Federal Program

We have audited University Community Health Service, Inc.'s, d/b/a Connectus Health (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2022-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2022-001 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. the Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Cherry Bekaert LLP

Nashville, Tennessee

May 11, 2023

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

YEAR ENDED JUNE 30, 2022

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness identified?	<u> </u>	yes	<u> X </u>	no
Significant deficiencies identified	<u> </u>	yes	<u> X </u>	none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness identified?	<u> X </u>	yes	<u> </u>	no
Significant deficiencies identified	<u> </u>	yes	<u> X </u>	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, 2022 are:

<u>Assistance Listing Number</u>	<u>Program Name</u>
93.224 and 93.527	Health Center Cluster

Dollar threshold used to distinguish between Type A and Type B Programs \$ 750,000

Auditee qualified as low-risk auditee? yes X no

Section II—Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no findings required to be reported by 2 CFR Section 200.526(a).

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

YEAR ENDED JUNE 30, 2022

Section III—Federal Audit Findings and Questioned Costs

Finding 2022-001 – Material Weakness and Nonmaterial Noncompliance in Internal Control over Retention of Supporting Documentation Relating to Sliding Fee Test.

Condition: During the audit, 40 sliding fee payments were selected for testing; however, insufficient supporting evidence was provided for six sample items which did not substantiate patient household income and number of residents who resided within the household.

Criteria: The Organization is responsible for charging a sliding fee based on household income and number of residents that reside within the patient's household.

Cause: The Organization did not have fully operating controls in place to ensure required documentation was received and/or maintained for some patients who received services.

Effect: The audit team was unable to verify or validate that participants were appropriately charged due to the inability to review sufficient supporting documentation. Therefore, the audit team is unable to conclude that the Organization is compliant with the requirement to charge patients the appropriate sliding fee.

Recommendation: We recommend controls and procedures be implemented to ensure all supporting documentation substantiating all patient household income and the number of residents who reside within their household is obtained and verified before services are provided. It should then be retained as supporting documentation that this compliance test has been completed and validated.

Management's Response: Management agrees with the finding and is in the process of developing and implementing a comprehensive plan to ensure that appropriate documentation regarding household income and number of residents who reside within the individual's household is obtained and retained prior to any services being provided to a patient.

Section IV—Prior Year Findings

Finding 2021-001 – Material Weakness and Nonmaterial Noncompliance in Internal Control over Retention of Supporting Documentation Relating to Sliding Fee Test.

Finding: During the audit, 40 sliding fee payments were selected for testing; however, insufficient supporting evidence was provided for 12 sample items which did not substantiate patient household income and number of residents who resided within the household.

Status: The finding was not corrected in the 2022 fiscal year. See finding 2022-001.

CORRECTIVE ACTION PLAN

U.S. Department of Health and Human Services

University Community Health Services, Inc., d/b/a Connectus Health, ("the Organization") respectfully submits the following corrective action plan for the report dated May 11, 2023.

Name and address of independent public accounting firm:
Cherry Bekaert, LLP
222 Second Avenue South, Suite 1240
Nashville, TN 37201

Audit period: July 1, 2021-June 30, 2022

The findings from the June 30, 2022, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Federal Award Findings and Questioned Costs - Major Federal Awards

Finding 2022-001 Material Weakness and Nonmaterial Noncompliance in Internal Control over retention of supporting documentation relating to sliding fee test.

2022-001 Recommendation: The Organization should ensure that controls and procedures are implemented to ensure that all supporting documentation substantiating all patient household income and the number of residents who reside within their household is obtained and verified before services are provided. It should then be retained as supporting documentation that this compliance test has been completed and validated.

Action Taken: We concur with the recommendation and will establish procedures to ensure supporting documentation substantiating all patient household income and the number of residents who reside within their household is obtained and verified before services are provided.

Date of Completion: June 30, 2023

If the U.S. Department of Health and Human Services has questions regarding this plan, please call Valerie Butt, Chief Financial Officer, at 757-618-0476.

Sincerely,



Valerie Butt
Chief Financial Officer