UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

FINANCIAL STATEMENTS
June 30, 2014 and 2013

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
Nashville, Tennessee

FINANCIAL STATEMENTS
June 30, 2014 and 2013

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
University Community Health Services, Inc.
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of University Community Health Services, Inc. (the "Organization"), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of operations and changes in net assets 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

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. as of June 30, 2014 and 2013, 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.

Other Matter

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014 on our consideration of University Community Health Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University Community Health Services, Inc.'s internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
October 28, 2014

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
BALANCE SHEETS
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 265,727	$ 485,655
Patient accounts receivable, net	450,086	636,059
Contract services and other grants receivable	408,842	393,559
Prepaid expenses and other	46,623	24,824
Total current assets	1,171,278	1,540,097
Deposits	18,310	18,310
Property and equipment, net	750,093	950,754
	$ 1,939,681	$ 2,509,161
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 450,274	$ 548,846
Accrued payroll and related benefits	254,815	188,325
Deferred revenue	32,400	32,400
Deferred rent, current portion	3,677	-
Total current liabilities	741,166	769,571
Deferred rent, net of current portion	17,450	-
Net assets		
Unrestricted	1,181,065	1,739,590
Total net assets	1,181,065	1,739,590
	$ 1,939,681	$ 2,509,161

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended June 30, 2014 and 2013

	2014	2013
Unrestricted revenue, grants, and other support		
Net patient service revenue	$ 2,823,934	$ 2,976,545
DHHS grants	938,570	814,500
Contract services and other grants	4,179,416	3,626,454
Contributions and other	57,727	102,475
In-kind contributions	24,738	25,882
Total revenue, grants, and other support	8,024,385	7,545,856
Expenses		
Salaries, wages, and benefits	3,686,078	3,154,829
Consultants and contractual services	2,661,209	3,506,945
Medical supplies	347,261	337,995
Equipment repair and maintenance	34,986	21,560
Provision for bad debts	114,764	-
Depreciation	202,284	212,666
Occupancy	292,643	246,469
Professional fees	631,425	198,838
Technology services	152,996	134,844
Telephone	63,295	54,328
Insurance	56,617	59,759
Recruiting	38,723	8,825
Dues and subscriptions	27,884	29,279
Equipment rental	6,770	7,669
Office and administrative	140,312	152,624
Travel and training	24,574	18,728
Donated space	24,738	25,882
Other	69,059	94,414
Loss on disposal of fixed assets	7,292	-
Total expenses	8,582,910	8,265,654
Change in net assets	(558,525)	(719,798)
Net assets at beginning of year	1,739,590	2,459,388
Net assets at end of year	$ 1,181,065	$ 1,739,590

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	$ (558,525)	$ (719,798)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	202,284	212,666
Loss on disposal of fixed assets	7,292	-
Provision for bad debts	114,764	-
Change in assets and liabilities		
Patient accounts receivable	71,209	(152,576)
Contract service and grants receivable	(15,283)	(17,689)
Prepaid expenses and other	(21,799)	21,449
Accounts payable and accrued expenses	(98,572)	(46,024)
Accrued payroll and related benefits	66,490	(74)
Deferred revenue	-	1,858
Deferred rent	21,127	-
Net cash from operating activities	(211,013)	(700,188)
Cash flows from investing activities		
Purchase of property and equipment	(8,915)	(5,035)
Net cash from investing activities	(8,915)	(5,035)
Net change in cash and cash equivalents	(219,928)	(705,223)
Cash and cash equivalents at beginning of year	485,655	1,190,878
Cash and cash equivalents at end of year	$ 265,727	$ 485,655
Supplemental disclosure of non-cash activities		
In-kind contributions and related expenses	$ 24,738	$ 25,882

See accompanying notes to the financial statements.

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Accounting: The 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").

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

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

Use of Estimates in the Preparation of Financial Statements: 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 and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000. At times these amounts may exceed federally insured limits. Additionally, for purposes of the statements of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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

(Continued)

NOTE 1 - DESCRIPTION OF ORGANIZATION AND 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. At June 30, 2014 and 2013, the allowance for doubtful accounts is $55,917 and $27,920, respectively.

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 5 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.

Impairment of Long-Lived Assets: On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2014 and 2013, management believes that no impairments existed.

Deferred Revenue: Deferred revenue consists of employer health contract funds received but not yet earned as of June 30, 2014 and 2013.

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. Provisions 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.

(Continued)

NOTE 1 - DESCRIPTION OF ORGANIZATION AND 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. As of October 28, 2014, the Organization has received grants from governmental entities in the aggregate amount of $686,582 that have not been recorded in these financial statements as they have not been earned. 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 received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as unrestricted.

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, 2014 and 2013, in-kind contributions of donated space totaled $24,738 and $25,882, respectively.

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.

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

Using the grant accounting method of revenue recognition, the Organization recognized $165,750 and $208,250 of revenue included in contract services and other grants revenue for HITECH incentives from Medicaid during the years ended June 30, 2014 and 2013, respectively. The Organization has demonstrated meaningful use of certified EHR technology or has completed attestations to their adoption or implementation of certified EHR technology.

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.

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NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Due to its tax-exempt status, the Organization is not generally subject to U.S. federal income tax or state income tax. The Organization's Form 990 has not been subject to examination by the Internal Revenue Service or the state of Tennessee for the last three years. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amounts accrued for interest and penalties at June 30, 2014 and 2013.

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

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2014. Management has performed their analysis through October 28, 2014, which is the date the financial statements were available to be issued.

NOTE 2 - PATIENT ACCOUNTS RECEIVABLE

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

	2014	2013
Medicare	$ 22,627	$ 23,802
Commercial	124,941	103,675
Self-pay	82,690	81,447
TennCare Managed Care plans	89,072	117,560
Medicaid Managed Care wraparound	147,306	302,579
TennCare Department of Health - Essential Access Pool	39,367	34,916
	506,003	663,979
Less allowance for doubtful accounts	55,917	27,920
	$ 450,086	$ 636,059

NOTE 3 - CONTRACT SERVICES AND OTHER GRANTS RECEIVABLE

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

	2014	2013
Employer Health	$ 378,550	$ 278,759
TennCare EHR Provider Incentive Program	-	85,000
Other	30,292	29,800
	$ 408,842	$ 393,559

NOTE 4 - PROPERTY AND EQUIPMENT

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

	2014	2013
Furniture and fixtures	$ 673,494	$ 682,114
Leasehold improvements	1,518,921	1,518,921
	2,192,415	2,201,035
Accumulated depreciation	1,442,322	1,250,281
	$ 750,093	$ 950,754

Depreciation expense for the years ended June 30, 2014 and 2013 was $202,284 and $212,666, respectively.

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

NOTE 5 - SHORT-TERM NOTE PAYABLE

During 2014 the Organization entered into a $500,000 revolving line of credit with SunTrust Bank, Nashville, Tennessee. The line is due at the maturity date and is collateralized by substantially all of the Organization's assets. Interest is payable monthly at 3.00% above the one-month LIBOR rate, or 3.15% at June 30, 2014. The line of credit expires in March 2015. There are no outstanding borrowings on this line of credit at June 30, 2014.

(Continued)

NOTE 6 - NET PATIENT SERVICE REVENUE

For the years ended June 30 patient services revenue consists of the following:

	2014			2013
	Gross Charges	Charitable and Contractual Allowances	Net Revenue	Net Revenue
Medicare	$ 301,875	$ 130,454	$ 171,421	$ 173,574
Commercial	1,421,675	398,970	1,022,705	1,227,769
Self-pay	1,695,932	1,452,482	243,450	266,408
TennCare Managed Care plans	1,618,694	1,097,367	521,327	711,033
	$ 5,038,176	$ 3,079,273	$ 1,958,903	$ 2,378,784
Medicaid Managed Care wraparound			643,565	504,146
Tennessee Department of Health Essential Access Pool			221,466	93,615
			$ 2,823,934	$ 2,976,545

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

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

For the years ended June 30, 2014 and 2013, the Organization recognized approximately 6% of net patient service revenue from services provided to Medicare beneficiaries.

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

For the years ended June 30, 2014 and 2013, the Organization recognized approximately 94% of net patient services revenue from services provided to non-Medicare Managed Care patients.

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

(Continued)

NOTE 7 - DHHS GRANTS

For the years ended June 30, the Organization received the following grants from the DHHS:

		2014		2013
Grant Number	Grant Period	Total Grant	Revenue Recognized	Revenue Recognized
6 H80CS08767	11/01/12 - 10/31/13	$ 927,707	$ 326,377	$ 260,169
6 H80CS08767	11/01/13 - 10/31/14	1,069,552	612,193	554,331
		$ 1,997,259	$ 938,570	$ 814,500

NOTE 8 - CONTRACT SERVICES AND OTHER GRANTS

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

	2014	2013
Employer Health	$ 3,656,061	$ 3,271,069
TennCare EHR Provider Incentive Program	165,750	208,250
	$ 3,821,811	$ 3,479,319

NOTE 9 - RETIREMENT PLAN

The Organization has a defined contribution retirement plan covering eligible employees with one year of continuous service. This plan requires employee and matching employer contributions. Participant accounts under this plan are immediately 100% vested. Retirement plan expense amounted to $65,700 and $65,910 for the years ended June 30, 2014 and 2013, respectively.

NOTE 10 - VANDERBILT UNIVERSITY MEDICAL CENTER

The Organization has some board members who are also members of the management of Vanderbilt University Medical Center (“Vanderbilt”). The Organization has a long-standing relationship with Vanderbilt; as such, there are various transactions which include staffing provided by Vanderbilt. The cost of such services is included in consultants and contractual services and totaled $2,335,570 and $3,328,492 for the years ended June 30, 2014 and 2013, respectively. The Organization is terminating its staffing contract with Vanderbilt effective October 2014.

(Continued)

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

Operating Leases: The Organization operates out of three clinic facilities. Two facilities are donated and recorded as in-kind. One facility is operated under a cancelable operating lease which requires a one-year notice before the Organization is allowed to terminate the agreement. The Organization also has various equipment leases. Leases terminate at various times through May 2019. Rent expense totaled $178,424 and $193,516 for the years ended June 30, 2014 and 2013.

Future minimum lease payments under operating leases consist of the following at June 30, 2014:

2015	$ 185,797
2016	188,422
2017	123,213
2018	71,140
2019	25,003
	$ 593,575

NOTE 12 - FUNCTIONAL EXPENSES

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

	2014	2013
Health care services	$ 6,832,008	$ 6,753,961
General and administrative	1,750,902	1,511,693
	$ 8,582,910	$ 8,265,654

SUPPLEMENTARY INFORMATION

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

Program Title	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures / Revenue	Ending Receivable
U.S. Department of Health and Human Services:						
Consolidated Heath Centers:						
Health Center Cluster	93.224	H80CS08767	$ -	$ 855,034	$ 855,034	$ -
Affordable Care Act Grants under the Health Center Program - Outreach and Enrollment Grant	93.527	H80CS08767	-	83,536	83,536	-
Total Health Center Cluster			$ -	$ 938,570	$ 938,570	$ -

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization for the year ended June 30, 2014 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
SCHEDULE OF STATE FINANCIAL ASSISTANCE
Year ended June 30, 2014

State Grantor	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures / Revenue		Ending Receivable
Tennessee Department of Health:							
Essential Access Pool	N/A	GR-10-29132-00	$ 34,916	$ (217,015)	$ 221,466	*	$ 39,367
Total state financial assistance			$ 34,916	$ (217,015)	$ 221,466		$ 39,367

* Based on revenue earned per award.

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

Board of Directors
University Community Health Services, Inc.
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. (the "Organization"), which comprise the balance sheet as of June 30, 2014, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
October 28, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR A MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
University Community Health Services, Inc.
Nashville, Tennessee

Report on Compliance for a Major Federal Program

We have audited University Community Health Services, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

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

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

Opinion on a 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, 2014.

(Continued)

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 a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for a major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
October 28, 2014

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

	Yes	No
• Material weakness(es) identified?		X

	Yes	None reported
• Significant deficiencies identified that are not considered to be material weaknesses?		X

	Yes	No
Noncompliance material to financial statements noted?		X

Federal Awards:

Internal control over major programs:

	Yes	No
• Material weakness(es) identified?		X

	Yes	None reported
• Significant deficiencies identified that are not considered to be material weaknesses?		X

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224 and 93.527	Health Center Cluster

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

	Yes	No
Auditee qualified as low-risk auditee?		X

(Continued)

Section II - Financial Statement Findings

- None.

Section III - Federal Award Findings and Questioned Costs

- None.

Section IV - Prior Year Findings and Questioned Costs

- None.