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

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

As of and for the Years Ended June 30, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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D/B/A CONNECTUS HEALTH
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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

We have audited the accompanying financial statements of University Community Health Services, Inc., d/b/a Connectus Health, (the "Organization") which comprise the statement of financial position as of June 30, 2018, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Community Health Services, Inc., d/b/a Connectus Health, as of June 30, 2018, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

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 and state awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2018 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.

Prior Year Financial Statements

The financial statements of University Community Health Services, Inc., d/b/a Connectus Health, as of June 30, 2017, were audited by other auditors whose report dated December 6, 2017, expressed an unmodified opinion on these statements.

Cherry Bekaert LLP

Nashville, Tennessee
October 21, 2018

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

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash	$ 861,323	$ 750,637
Patient accounts receivable, net	353,978	504,150
Contract services and other grants receivable	289,349	165,066
Prepaid expenses and other	91,096	106,661
Total Current Assets	1,595,746	1,526,514
Deposits	12,182	12,182
Property and equipment, net	264,552	429,342
Total Assets	$ 1,872,480	$ 1,968,038
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of capital lease obligations	$ 49,290	$ 48,188
Accounts payable and accrued expenses	172,941	93,439
Accrued payroll and related benefits	119,260	108,654
Deferred revenue	684	29,289
Deferred rent, current position	815	4,532
Total Current Liabilities	342,990	284,102
Deferred rent, net of current portion	-	396
Capital lease obligations, excluding current portion	60,515	109,606
Other long-term liabilities	5,291	1,480
Total Liabilities	408,796	395,584
Net Assets - Unrestricted	1,463,684	1,572,454
Total Liabilities and Net Assets	$ 1,872,480	$ 1,968,038

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 OPERATIONS AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Unrestricted Revenue, Grants, and Other Support:		
Patient service revenue, net of contractual adjustments	$ 2,217,850	$ 2,030,408
Provision for bad debts	-	(20,784)
Net Patient Service Revenue	2,217,850	2,009,624
DHHS grants	1,669,535	1,836,679
Contract services and other grants	2,037,658	1,809,287
Contributions and other	97,264	54,037
In-kind contributions	76,632	81,658
Total Revenue, Grants, and Other Support	6,098,939	5,791,285
Expenses:		
Salaries, wages, and benefits	4,079,247	3,745,287
Professional fees	432,805	394,422
Medical supplies	352,366	266,648
Contract services	288,327	248,481
Technology services	250,710	242,652
Depreciation	184,010	176,970
Building services	103,438	100,470
Marketing and promotion	98,365	46,381
Building and equipment rental	92,162	114,643
Telephone	81,883	76,950
Employee recruiting and retention	69,487	55,167
Insurance	53,364	50,056
Office and administrative	51,311	60,487
Other	22,978	19,334
Meals and entertainment	23,991	14,410
Repairs and maintenance	23,265	7,973
Total Expenses	6,207,709	5,620,331
Change in net assets	(108,770)	170,954
Net assets, beginning of year	1,572,454	1,401,500
Net assets, end of year	$ 1,463,684	$ 1,572,454

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

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (108,770)	$ 170,954
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	184,010	176,970
Provision of bad debts	-	20,784
Changes in assets and liabilities:		
Patient accounts receivable	150,172	(179,488)
Contract service and grants receivable	(124,283)	27,491
Prepaid expenses and other assets	16,211	(51,164)
Accounts payable and accrued expenses	79,502	(28,510)
Accrued payroll and related benefits	10,606	(58,950)
Deferred revenue	(28,605)	29,289
Deferred rent	(4,113)	(2,825)
Other long-term liabilities	3,811	-
Net cash provided by operating activities	178,541	104,551
Cash flows from investing activities:		
Purchases of property and equipment	(19,866)	(24,677)
Net cash used in investing activities	(19,866)	(24,677)
Cash flows from financing activities:		
Payments of capital leases	(47,989)	(36,742)
Net cash used in financing activities	(47,989)	(36,742)
Increase in cash	110,686	43,132
Cash, beginning of year	750,637	707,505
Cash, end of year	$ 861,323	$ 750,637
Supplemental disclosure of noncash activities:		
Equipment acquired through capital lease	$ -	$ 189,917

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

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

> *Unrestricted Net Assets* – Net assets of the Organization that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
>
> *Temporarily Restricted Net Assets* – Net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or by actions of the Organization. The Organization does not have temporarily restricted net assets at June 30, 2018 or 2017.
>
> *Permanently Restricted Net Assets* – Net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization does not have permanently restricted net assets at June 30, 2018 or 2017.

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

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.

Note 2—Summary of significant accounting policies (continued)

Allowance for Doubtful Accounts – The allowance for doubtful accounts is determined by management based on the Organization's historical losses, specific patient circumstances, and general economic conditions. Periodically, management reviews patient accounts receivable and records a provision for specific patients based on current circumstances and charges off the receivable against the allowance when attempts to collect the receivable have been unsuccessful.

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

Property and Equipment – Property and equipment are stated at cost, or if donated to the Organization, at fair value on the date of acquisition. Additions and improvements over $500 with an estimated useful life exceeding one year are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method ranging from 3 to 15 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvements or the term of the lease, whichever is shorter.

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

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. As of June 30, 2018 and 2017, management believes that no impairments existed.

Deferred Revenue – Deferred revenue consisted of employer health contract funds received but not yet earned as of June 30, 2018 and 2017.

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

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

Note 2—Summary of significant accounting policies (continued)

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

Grant Revenue – Grants are recognized as revenue when earned. Expense-driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. These grants and contracts require the Organization to provide certain health care 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 statements 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, 2018 and 2017, in-kind contributions totaled $76,632 and $81,658, respectively. In-kind donations in 2018 and 2017 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.

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 Medicare and Medicaid incentive payments program beginning in 2011 for eligible health care 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 $25,500 and $51,000 of revenue included in contract services and other grants revenue for HITECH incentives from Medicaid during the years ended June 30, 2018 and 2017, respectively. The Organization has demonstrated meaningful use of certified EHR technology or has completed attestations to their adoption or implementation of certified EHR technology.

Note 2—Summary of significant accounting policies (continued)

Advertising - Advertising costs are expensed as incurred. Advertising costs totaled $98,365 and $49,477 for the years ended June 30, 2018 and 2017, respectively.

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.

Accounting Policies for Future Pronouncements – In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decreases in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. This standard will be effective for the fiscal year ending June 30, 2019.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the fiscal year ending June 30, 2020. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, the 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 income statement. This standard will be effective for the fiscal year ending June 30, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard will be effective for the fiscal year ending June 30, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent Events – The Organization has evaluated subsequent events through October 21, 2018 when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

Note 3—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, 2018, the Organization had bank balances of approximately $692,000 which exceed these limits.

Note 4—Patient accounts receivable

Patient accounts receivable, net, consist of the following at June 30, 2018 and 2017:

	2018	2017
Medicare	$ 26,152	$ 19,179
Medicaid Managed Care wraparound	132,855	277,124
TennCare Manage Care plans	46,431	30,078
TennCare Department of Health - Essential Access Pool	29,955	38,323
Commercial	51,683	206,148
Self-pay	350,196	308,299
	637,272	879,151
Less allowance for doubtful accounts	(283,294)	(375,001)
	$ 353,978	$ 504,150

Note 5—Sliding fees

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

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

The following information measures the level of charity care provided during the year ended June 30, 2018 under the sliding fee policy:

Gross charges discounted, at established rates	$ 1,691,272
Estimated costs and expenses incurred to provided sliding fee discounts included in the statement of activities	$ 1,547,971
Equivalent percentage of patients receiving sliding fees to all patients served	40%

Note 6—Contract services and other grants receivable

Contract services and other grants receivable consist of the following at June 30, 2018 and 2017:

	2018	2017
Employer Health	$ 236,410	$ 162,090
Other	52,939	2,976
	$ 289,349	$ 165,066

Note 7—Property and equipment

The Organization's property and equipment and the related accumulated depreciation at June 30 2018 and 2017 are as follows:

	2018	2017
Furniture and fixtures	$ 120,960	$ 116,086
Leasehold improvements	1,393,812	1,385,235
Office and medical equipment	192,100	187,449
Computer equipment	432,833	431,713
	2,139,705	2,120,483
Accumulated depreciation	(1,875,153)	(1,691,141)
	$ 264,552	$ 429,342

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 8—Line of credit

The Organization has a $250,000 revolving line of credit with SunTrust Bank. Interest on the revolving line of credit is payable monthly at 3.00% above the one-month LIBOR rate, or 4.17%, at June 30, 2018. 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, 2018 and 2017. The revolving line of credit is collateralized by substantially all of the Organization's assets.

Note 9—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, 2018 and 2017 is summarized as follows:

	2018	2017
Minimum lease payments payable	$ 113,027	$ 164,253
Less portion representing interest	(3,222)	(6,459)
Capital lease obligations	109,805	157,794
Less current portion	(49,290)	(48,188)
Long-term portion	$ 60,515	$ 109,606

Note 10—Net patient service revenue

For the years ended June 30, 2018 and 2017, patient service revenue consists of the following:

	2018			2017
	Gross Charges	Charitable and Contractual Allowances	Net Revenue	Net Revenue
Medicare	$ 292,114	$ 167,935	$ 124,179	$ 105,717
TennCare Managed Care plans	1,612,441	1,106,079	506,362	449,543
Commercial	1,455,666	743,939	711,727	602,116
Self-pay	1,463,863	1,323,904	139,959	204,536
	$ 4,824,084	$ 3,341,857	1,482,227	1,361,912
Medicaid Manage Care wraparound			630,799	533,144
Tennessee Department of Health Essential Access Pool			104,824	135,352
Less provision for bad debts			-	(20,784)
			$ 2,217,850	$ 2,009,624

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.

Note 10—Net patient service revenue (continued)

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 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.

Note 11—Contract services and other grants revenue

For the years ended June 30, 2018 and 2017, contract services and other grants revenue consists of the following:

	2018	2017
Employer Health	$ 1,738,448	$ 1,758,287
CHIP Cover Kids	199,799	-
Per Member Per Month PCMP	73,911	-
TennCare EHR Provider Incentive Program	25,500	51,000
	$ 2,037,658	$ 1,809,287

Note 12—Retirement plan

The Organization has a defined contribution retirement plan covering eligible employees with one year of continuous service. This plan includes provisions for employee and matching employer contributions. Participant accounts under this plan are immediately 100% vested. Retirement plan expense amounted to $77,916 and $75,336 for the years ended June 30, 2018 and 2017, respectively, and are included in salaries, wages, and benefits in the accompanying statements of operations and changes in net assets.

Note 13—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, 2018.

Note 13—Commitments and contingencies (continued)

Health Care 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 health care 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 health care 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 health care providers. Violations of these laws and regulations could result in expulsion from government health care 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.

Health Care Reform – In March 2010, Congress adopted comprehensive health care 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 health care 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 health care 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. One facility is operated under a cancelable operating lease which expires in July 2021. The Organization also has various equipment leases. Leases terminate at various times through April 2019. Rent expense totaled $92,162 and $114,643 for the years ended June 30, 2018 and 2017, 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 $815 and $4,928 at June 30, 2018 and 2017, respectively.

Approximate future minimum lease payments under operating leases consist of the following at June 30, 2018:

Years Ending June 30,		
2019	$	62,192
2020		63,887
2021		66,687
2022		5,577
	$	198,343

Note 14—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, 2018 and 2017 are as follows:

	2018	2017
Health care services	$ 4,982,080	$ 4,382,928
General and administrative	1,225,629	1,237,403
	$ 6,207,709	$ 5,620,331

SUPPLEMENTAL INFORMATION

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

YEAR ENDED JUNE 30, 2018

Grant Description	CFDA Number	Grant Number	Expenditures
Federal Awards:			
U.S. Department of Health and Human Services:			
Health Center Cluster:			
Health Center Program	93.224	H80CS08767	$ 406,259
Affordable Care Act			
Grants under the Health Center Program	93.527	H80CS08767	1,263,276
Total Health Center Cluster			1,669,535
Total Federal Awards			1,669,535
State Awards:			
Tennessee Department of Health:			
Health Care Safety Net Primary Care Services	N/A	41703	104,824
Total State Awards			104,824
Total Federal and State Awards			$ 1,774,359

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, 2018. 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 2018 in the form of non-cash assistance.

Note 3—Indirect cost rate

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

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

JUNE 30, 2018

BOARD OF DIRECTORS

Amy Radcliff – President

Brent Taylor
Shana Berkley
Qena Armstrong
Kathryn Haeuptle

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
Stephanie Cavanagh – CFO

Cherry Bekaert LLP
CPAs & Advisors

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*

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, 2018, 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 21, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Cherry Bekaert LLP

Nashville, Tennessee
October 21, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited University Community Health Services, Inc.'s, d/b/a Connectus Health, (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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

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

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

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

Cherry Bekaert LLP

Nashville, Tennessee
October 21, 2018

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness identified?	_____ yes	X	no
Significant deficiencies identified	_____ yes	X	none reported
Noncompliance material to financial statements noted?	_____ yes	X	no

Federal Awards

Internal control over major programs:			
Material weakness identified?	_____ yes	X	no
Significant deficiencies identified	_____ yes	X	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516(a)?	_____ yes	X	no

Identification of major programs for the Organization for the fiscal year ended June 30, 2018 are:

CFDA#	Program Name
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?	X yes	_____	no

Section II—Financial Statement Findings

None noted.

Section III—Federal Audit Findings and Questioned Costs

None noted.

Section IV—Prior Year Findings

None noted.