UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Financial Statements and Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

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LBMC MAKE A GOOD BUSINESS BETTER

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of University Community Health Services, Inc., (the "Organization") which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of operations, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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. as of June 30, 2017 and 2016, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

LBMC, PC

Brentwood, Tennessee
December 6, 2017

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Statements of Financial Position

June 30, 2017 and 2016

Assets

	2017	2016
Current assets:		
Cash	$ 750,637	$ 707,505
Patient accounts receivable, net	504,150	345,446
Contract services and other grants receivable	165,066	192,557
Prepaid expenses and other	106,661	57,300
Total current assets	1,526,514	1,302,808
Deposits	12,182	10,379
Property and equipment, net	429,342	391,718
	$ 1,968,038	$ 1,704,905

Liabilities and Net Assets

Current liabilities:		
Current portion of capital lease obligations	$ 48,188	$ 4,619
Accounts payable and accrued expenses	93,439	121,949
Accrued payroll and related benefits	108,654	167,604
Deferred revenue	29,289	-
Deferred rent, current portion	4,532	2,832
Total current liabilities	284,102	297,004
Deferred rent, net of current portion	396	4,921
Capital lease obligations, excluding current portion	109,606	-
Other long-term liabilities	1,480	1,480
Total liabilities	395,584	303,405
Net assets - unrestricted	1,572,454	1,401,500
	$ 1,968,038	$ 1,704,905

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Statements of Operations and Changes in Net Assets

Years ended June 30, 2017 and 2016

	2017	2016
Unrestricted revenue, grants and other support:		
Patient service revenue, net of contractual adjustments	$ 2,030,408	$ 2,089,630
Provision for bad debts	(20,784)	(99,312)
Net patient service revenue	2,009,624	1,990,318
DHHS grants	1,836,679	1,606,566
Contract services and other grants	1,809,287	1,856,305
Contributions and other	54,037	164,047
In-kind contributions	81,658	62,612
Total revenue, grants and other support	5,791,285	5,679,848
Expenses:		
Salaries, wages and benefits	3,745,287	3,582,593
Professional fees	394,422	310,997
Medical supplies	266,648	287,664
Technology services	242,652	240,684
Contract services	248,481	186,614
Depreciation	176,970	162,979
Building and equipment rental	114,643	100,411
Building services	100,470	81,173
Insurance	50,056	71,004
Telephone	76,950	70,172
Office and administrative	60,487	58,018
Marketing and promotion	46,381	35,834
Other	96,884	80,570
Loss on disposal of property and equipment	-	20,176
Total expenses	5,620,331	5,288,889
Change in net assets	170,954	390,959
Net assets at beginning of year	1,401,500	1,010,541
Net assets at end of year	$ 1,572,454	$ 1,401,500

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 170,954	$ 390,959
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	176,970	162,979
Loss on disposal of property and equipment	-	20,176
Provision for bad debts	20,784	99,312
Gain from write-off of Vanderbilt contract services payable	-	(151,652)
Changes in assets and liabilities:		
Patient accounts receivable	(179,488)	(55,512)
Contract service and grants receivable	27,491	(41,110)
Prepaid expenses and other assets	(51,164)	(26,091)
Accounts payable and accrued expenses	(28,510)	(25,258)
Accrued payroll and related benefits	(58,950)	(90,676)
Deferred revenue	29,289	(28,699)
Deferred rent	(2,825)	(1,181)
Other long-term liabilities	-	403
Net cash provided by operating activities	104,551	253,650
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	-	2,311
Purchases of property and equipment	(24,677)	(5,263)
Net cash used in investing activities	(24,677)	(2,952)
Cash flows from financing activities - payments of capital leases	(36,742)	(5,082)
Increase in cash	43,132	245,616
Cash at beginning of year	707,505	461,889
Cash at end of year	$ 750,637	$ 707,505
Supplemental disclosure of non-cash activities:		
Equipment acquired through capital lease	$ 189,917	$ -

See accompanying notes to the financial statements.

(1) Nature of operations

University Community Health Services, Inc., dba 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.

(2) Summary of significant accounting policies

(a) Basis of accounting

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

(b) 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, 2017 or 2016.

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, 2017 or 2016.

(c) Use of estimates

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

(d) 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.

(e) 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.

(f) 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.

(g) 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 three to fifteen years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvements or the term of the lease, whichever is shorter.

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.

(h) 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, 2017 and 2016, management believes that no impairments existed.

(i) Deferred revenue

Deferred revenue consisted of employer health contract funds received but not yet earned as of June 30, 2017. There was no deferred revenue as of June 30, 2016.

(j) 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.

(k) 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.

(l) Grant revenue

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

(m) Contributions

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

(n) In-kind contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind contributions as both revenue and expense for the programs or activities benefited. For the years ended June 30, 2017 and 2016, in-kind contributions totaled $81,658 and $62,612, respectively. In-kind donations in 2017 and 2016 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.

(o) Meaningful use revenue

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). These provisions were designed to increase the use of electronic health records ("EHR") technology and establish the requirements for 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 $63,750 and $106,251 of revenue included in contract services and other grants revenue for HITECH incentives from Medicaid during the years ended June 30, 2017 and 2016, respectively. The Organization has demonstrated meaningful use of certified EHR technology or has completed attestations to their adoption or implementation of certified EHR technology.

(p) Income taxes

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

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

Due to its tax-exempt status, the Organization is not generally subject to U.S. federal income tax or state income tax. The Organization's Form 990 has not been subject to examination by the Internal Revenue Service or the state of Tennessee for the last three years. The Organization 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, 2017 and 2016.

(q) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2017 and December 6, 2017 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

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

(4) Patient accounts receivable

Patient accounts receivable, net, consist of the following at June 30, 2017 and 2016:

	2017	2016
Medicare	$ 19,179	$ 17,882
Medicaid Managed Care wraparound	277,124	150,348
TennCare Managed Care plans	30,078	46,983
TennCare Department of Health - Essential Access Pool	38,323	37,353
Commercial	206,148	148,966
Self-pay	308,299	169,453
	879,151	570,985
Less: allowance for doubtful accounts	(375,001)	(225,539)
	$ 504,150	$ 345,446

(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, 2017 under the sliding fee policy:

Gross charges discounted, at established rates	$ 1,533,142
Estimated costs and expenses incurred to provide sliding fee discounts included in the statement of activities	$ 1,158,394
Equivalent percentage of patients receiving sliding fees to all patients served	41%

(6) Contract services and other grants receivable

Contract services and other grants receivable consist of the following at June 30, 2017 and 2016:

	2017	2016
Employer Health	$ 162,090	$ 171,307
Other	2,976	21,250
	$ 165,066	$ 192,557

(7) Property and equipment

The Organization's property and equipment and the related accumulated depreciation at June 30, 2017 and 2016 are as follows:

	2017	2016
Furniture and fixtures	$ 116,086	$ 113,936
Leasehold improvements	1,365,996	1,365,996
Buildings and improvements	19,239	-
Office and medical equipment	187,449	186,479
Computer equipment	431,713	239,472
	2,120,483	1,905,883
Accumulated depreciation	(1,691,141)	(1,514,165)
	$ 429,342	$ 391,718

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 DHSS from the Organization.

(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, 2017. 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, 2017 and 2016. The revolving line of credit is collateralized by substantially all of the Organization's assets.

(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, 2017 and 2016 is summarized as follows:

	2017	2016
Minimum lease payments payable	$ 164,253	$ 4,822
Less: portion representing interest	6,459	203
Capital lease obligations	157,794	4,619
Less: current portion	48,188	4,619
Long-term portion	$ 109,606	$ -

(10) Net patient service revenue

For the years ended June 30, 2017 and 2016, patient service revenue consists of the following:

	2017			2016
	Gross Charges	Charitable and Contractual Allowances	Net Revenue	Net Revenue
Medicare	$ 262,349	$ 156,632	$ 105,717	$ 130,312
TennCare Managed Care plans	1,437,177	987,634	449,543	539,637
Commercial	1,222,127	620,011	602,116	493,001
Self-pay	1,397,562	1,193,026	204,536	137,700
	$ 4,319,215	$ 2,957,303	1,361,912	1,300,650
Medicaid Managed Care wraparound			533,144	606,677
Tennessee Department of Health Essential Access Pool			135,352	182,303
Less: provision for bad debts			(20,784)	(99,312)
			$ 2,009,624	$ 1,990,318

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

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

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

There is at least a reasonable possibility that recorded Medicare and Medicaid estimates will change by a material amount in the near term. The Organization believes 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.

(11) Contract services and other grants

For the years ended June 30, 2017 and 2016, contract services and other grants revenue consists of the following:

	2017	2016
Employer Health	$ 1,758,287	$ 1,750,054
TennCare EHR Provider Incentive Program	51,000	106,251
	$ 1,809,287	$ 1,856,305

(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 $75,336 and $71,589 for the years ended June 30, 2017 and 2016, respectively, and are included in salaries, wages and benefits in the accompanying statements of operations and changes in net assets.

(13) Vanderbilt University Medical Center

The Organization had a contract with Vanderbilt University Medical Center ("Vanderbilt") for contracted clinical provider services/staffing that was terminated by the Organization effective September 30, 2014. At that time, there were various transactions between the Organization and Vanderbilt for these services. At June 30, 2015, the Organization owed Vanderbilt approximately $150,000 for contractual clinical provider staffing services provided. After multiple attempts to contact Vanderbilt to collect this balance, no response has been received and the Organization elected to write-off this amount in 2016. The write-off is included in contributions and other revenue on the accompanying statement of operations and changes in net assets for the year ended June 30, 2016.

(14) Commitments and contingencies

Medical Malpractice

The Organization maintains its medical malpractice coverage under the Federal Tort Claims Act (the "FTCA"). The FTCA provides malpractice coverage to eligible U.S. Public Health Service-supported programs and applies to the Organization and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage. The Organization's FTCA coverage has been approved through December 31, 2018.

Healthcare Industry

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

The 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.

Healthcare 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 2018. The Organization also has various equipment leases. Leases terminate at various times through April 2019. Rent expense totaled $114,643 and $100,411 for the years ended June 30, 2017 and 2016, 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 $4,928 and $7,753 at June 30, 2017 and 2016, respectively.

Approximate future minimum lease payments under operating leases consist of the following at June 30, 2017:

2018	**$ 88,000**
2019	**20,000**
	$ 108,000

(15) Functional expenses

The Organization provides general health care services to patients within its geographic location. Functional expenses categorized by program and supporting services for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Health care services	$ 4,382,928	$ 4,152,088
General and administrative	1,237,403	1,136,801
	$ 5,620,331	$ 5,288,889

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2017

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**	**$ 386,719**
Affordable Care Act Grants under the Health Center Program	**93.527**	**H80CS08767**	**1,460,349**
Total Health Center Cluster			**$ 1,847,068**
Total Federal Awards			**$ 1,847,068**
STATE AWARDS:			
Tennessee Department of Health:			
Essential Access Pool	**N/A**	**GR-10-29132-00**	**$ 135,352**
Total State Awards			**$ 135,352**
Total Federal and State Awards			**$ 1,982,420**

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Schedule of Expenditures of Federal and State Awards

June 30, 2017

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, 2017. 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 HHS at 45 CFR Part 75 and the State of Tennessee. Because this Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, 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 2017 in the form of non-cash assistance.

Note 3 - Indirect Cost Rate

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

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Roster of Officials of the Organization

Board of Directors
Amy Radcliff, President

James Armstrong
Shana Berkeley
Mamie Brinkley
Barbara Cannon
Kevin Conard
Kathryn Haeuptle
Hannah Laurenson
Anita Sanders
Brent Taylor
Marie Cristina
Yuri Cunza
Qena Armstrong

Members of Management
Caroline Portis-Jenkins; Co-CEO, Director of On Site Clinics & Employer Health Services
Suzanne Hurley; Co-CEO, Director of Community & Women's Health Services
Richard Davidson, CFO

LBMC MAKE A GOOD BUSINESS BETTER

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University Community Health Services, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2017, 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 December 6, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

LBMC, PC

Brentwood, Tennessee
December 6, 2017

LBMC MAKE A GOOD BUSINESS BETTER

Independent Auditors' Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited University Community Health Services, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal 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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2017.

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.

LBMC, PC

Brentwood, Tennessee
December 6, 2017

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

(1) SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	**Unmodifed**	
Internal control over financial reporting:		
Material weakness(es) identified?	**___yes**	**_x_no**
Significant deficiency(ies) identified?	**___yes**	**_x_none reported**
Noncompliance material to financial statements noted?	**___yes**	**_x_no**

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	**___yes**	**_x_no**
Significant deficiency(ies) identified?	**___yes**	**_x_none reported**
Type of auditors' report issued on compliance for major program	**Unmodified**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	**___yes**	**_x_no**

Identification of major programs for the Organization for the fiscal year ended June 30, 2017 are:

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

Dollar threshold to distinguish between Type A and Type B programs:		**$ 750,000**
Auditee qualified as low-risk auditee?	**_x_yes**	**___no**

(2) FINANCIAL STATEMENT FINDINGS

None noted

(3) FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

None noted

(4) SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None noted