



Crowe Horwath®

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

FINANCIAL STATEMENTS

June 30, 2012 and 2011

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
Nashville, Tennessee

FINANCIAL STATEMENTS
June 30, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheets of University Community Health Services, Inc. (the "Organization") as of June 30, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2012, on our considerations of the Organization's internal control over financial reporting and our test 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. In addition, the accompanying schedule of state financial assistance is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 schedule of expenditures of federal awards and the schedule of state financial assistance are fairly stated, in all material respects, in relation to the financial statements as a whole.

Crowe Horwath LLP
Crowe Horwath LLP

South Bend, Indiana
December 17, 2012

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
BALANCE SHEETS
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets	\$ 1,190,878	\$ 517,264
Cash and cash equivalents	483,483	466,996
Patient accounts receivable, net	375,870	1,103,130
Contract service and grants receivable	<u>64,583</u>	<u>41,277</u>
Prepaid expenses and other	2,114,814	2,128,667
Total current assets	<u>1,158,385</u>	<u>1,161,620</u>
Property and equipment, net	<u>\$ 3,273,199</u>	<u>\$ 3,290,287</u>
 LIABILITIES AND NET ASSETS		
Current liabilities	\$ 594,870	\$ 398,959
Accounts payable and accrued expenses	188,399	164,094
Accrued payroll and related benefits	<u>30,542</u>	<u>29,059</u>
Deferred revenue	813,811	592,112
Total current liabilities		
 Net assets	<u>2,459,388</u>	<u>2,698,175</u>
Unrestricted	<u>2,459,388</u>	<u>2,698,175</u>
Total net assets	<u>\$ 3,273,199</u>	<u>\$ 3,290,287</u>

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenue, grants, and other support	\$ 3,400,263	\$ 3,477,933
Net patient service fees	815,494	738,053
DHHS grants	3,171,007	3,563,170
Grants and contracts	169,309	388,329
Contributions and other	25,882	25,882
In-kind contributions	-	11,824
Net assets released from restrictions	7,581,955	8,205,191
Total revenue, grants, and other support		
Expenses	2,042,903	1,862,702
Salaries and wages	598,224	438,944
Fringe benefits	3,617,984	3,644,762
Consultants and contractual services	618,985	572,770
Medical supplies and laboratory fees	155,497	107,705
Equipment repair and maintenance	219,684	191,191
Depreciation	169,005	151,931
Occupancy	11,462	48,403
Professional fees	51,937	56,462
Telephone	51,022	51,188
Insurance	46,739	61,991
Dues and subscriptions	21,031	35,006
Equipment rental	69,384	60,252
Office and administrative	30,385	34,546
Travel and training	25,882	25,882
Donated space	90,618	86,224
Other	7,820,742	7,429,959
Total expenses		
Operating income (loss)	(238,787)	775,232
DHHS grants for capital expenditures	-	106,472
Change in unrestricted net assets	(238,787)	881,704
Temporarily restricted net assets	-	(11,824)
Net assets released from restrictions	-	(11,824)
Change in temporarily restricted net assets	(238,787)	869,880
Change in net assets	2,698,175	1,828,295
Net assets at beginning of year	\$ 2,459,388	\$ 2,698,175
Net assets at end of year		

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (238,787)	\$ 869,880
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	219,684	191,191
Grants restricted for long-term use	-	(106,472)
Change in assets and liabilities		
Patient accounts receivable	(16,487)	(105,359)
Contract service and grants receivable	727,260	(664,992)
Prepaid expenses	(23,306)	8,357
Accounts payable	195,911	(93,245)
Accrued payroll and related benefits	24,305	45,455
Deferred revenue	<u>1,483</u>	<u>29,059</u>
Net cash from operating activities	890,063	173,874
Cash flows from investing activities		
Purchase of property and equipment	<u>(216,449)</u>	<u>(145,434)</u>
Net cash from investing activities	(216,449)	(145,434)
Cash flows from financing activities		
Proceeds from restricted grants	<u>-</u>	<u>106,472</u>
Net cash from financing activities	<u>-</u>	<u>106,472</u>
Net change in cash and cash equivalents	673,614	134,912
Cash and cash equivalents at beginning of year	<u>517,264</u>	<u>382,352</u>
Cash and cash equivalents at end of year	<u>\$ 1,190,878</u>	<u>\$ 517,264</u>
Supplemental disclosure of non-cash activities		
In-kind contributions and related expenses	\$ 25,882	\$ 25,882

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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

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

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

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

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

Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization. The Organization does not have temporarily restricted net assets.

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

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas where significant estimates are used in the accompanying financial statements include allowance for doubtful accounts and provisions for bad debts. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are either interest-bearing and federally insured up to \$250,000 or non-interest bearing and fully guaranteed by the federal government. At times these amounts may exceed federally insured limits. Additionally, for purposes of the statements of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents if purchased with operating cash.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is determined by management based on the Organization's historical losses, specific patient circumstances, and general economic conditions. Periodically, management reviews patient accounts receivable and records a provision for specific patients based on current circumstances and charges off the receivable against the allowance when attempts to collect the receivable have been unsuccessful. At June 30, 2012 and 2011, the allowance for doubtful accounts is \$35,212 and \$138,717, respectively.

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

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at fair value on the date of acquisition. Additions and improvements over \$3,000 with an estimated useful life exceeding one year are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method ranging from 5 to 15 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvements or the term of the lease, whichever is shorter.

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

Impairment of Long-Lived Assets: On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2012 and 2011, management believes that no impairments existed.

Deferred Revenue: Deferred revenue consists of employer health contract funds received but not yet earned as of June 30, 2012 or 2011.

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

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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.

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. At June 30, 2012 and 2011, the Organization has received grants from governmental entities in the aggregate amount of \$260,169 and \$295,166, respectively, that have not been recorded in these financial statements as they have not been earned. These grants and contracts require the Organization to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allocated under the grants.

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

In-Kind Contributions: In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind contributions as both revenue and expense for the programs or activities benefited. For the years ended June 30, 2012 and 2011, in-kind contributions of donated space totaled \$25,882.

Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, or require special skills and are provided by individuals possessing such special skills and would typically need to be purchased by the Organization if they had not been donated.

Meaningful Use Revenue: The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). These provisions were designed to increase the use of electronic health records ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible healthcare providers that 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 that 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.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

Using the grant accounting method of revenue recognition, the Organization recognized \$195,000 and \$680,500 of revenue for HITECH incentives from Medicaid during the years ended June 30, 2012 and 2011, respectively. The Organization has demonstrated meaningful use of certified EHR technology or has completed attestations to their adoption or implementation of certified EHR technology.

Results of Operations: The statements of operations and changes in net assets include operating income that represent the results of operations. Changes in unrestricted net assets which are excluded from operating income, consistent with industry practice, include DHHS grants (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

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 does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amounts accrued for interest and penalties at June 30, 2012 and 2011.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2012 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2012. Management has performed their analysis through December 17, 2012, which is the date the financial statements were available to be issued.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 - PATIENT SERVICES RECEIVABLE

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

	<u>2012</u>	<u>2011</u>
Medicare	\$ 17,417	\$ 40,662
Other third-party payors	175,043	177,705
Self-pay	71,638	70,373
TennCare Managed Care plans	8,332	9,060
Medicaid Managed Care wraparound	222,095	287,454
TennCare Department of Health - Essential Access Pool	<u>24,170</u>	<u>20,459</u>
	518,695	605,713
	<u>35,212</u>	<u>138,717</u>
Less allowance for doubtful accounts		
	<u>\$ 483,483</u>	<u>\$ 466,996</u>

NOTE 3 - CONTRACT SERVICES AND OTHER GRANTS RECEIVABLE

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

	<u>2012</u>	<u>2011</u>
Dept. of Finance and Administration, Bureau of TennCare:		
Obstetrics and Gynecology	\$ -	\$ 36,677
Vanderbilt University Medical Center: Basic Nurse	-	81,056
Education and Practice Grant	286,620	304,897
Employer Health	<u>89,250</u>	<u>680,500</u>
TennCare EHR Provider Incentive Program		
	<u>\$ 375,870</u>	<u>\$ 1,103,130</u>

NOTE 4 - PROPERTY AND EQUIPMENT

The Organization's property and equipment and the related accumulated depreciation at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ 672,850	\$ 541,545
Leasehold improvements	<u>1,523,150</u>	<u>1,438,006</u>
	2,196,000	1,979,551
	<u>1,037,615</u>	<u>817,931</u>
Accumulated depreciation		
	<u>\$ 1,158,385</u>	<u>\$ 1,161,620</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 4 - PROPERTY AND EQUIPMENT (Continued)

Depreciation expense for the years ended June 30, 2012 and 2011 was \$219,684 and \$191,191, respectively.

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

NOTE 5 - DHHS GRANTS

For the years ended June 30, 2012 and 2011, the Organization received the following grants from the DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>2012</u>		<u>2011</u>
		<u>Total Grant</u>	<u>Revenue Recognized</u>	<u>Revenue Recognized</u>
4 H80CS08767-03-03	11/01/09 - 02/28/11	911,312	-	452,311
6 H80CS08767-04-04	03/01/11 - 10/31/11	547,247	295,167	252,080
6 H8BCS12190-01-01	03/27/09 - 03/26/11	194,029	-	33,662
6 C81CS13594-01-02	06/29/09 - 06/28/11	500,180	-	106,472
5 H80CS08767-05-00	11/01/11 - 10/31/12	780,498	520,327	-
		<u>\$ 2,933,266</u>	<u>\$ 815,494</u>	<u>\$ 844,525</u>

NOTE 6 - PATIENT SERVICES REVENUE

For the years ended June 30, 2012 and 2011, patient services revenue consists of the following:

	<u>2012</u>		<u>2011</u>
	<u>Gross Changes</u>	<u>Charitable and Contractual Allowances</u>	<u>Net Revenue</u>
Medicare	\$ 281,414	\$ 62,937	\$ 218,477
Other third-party payors	1,311,111	184,722	1,126,389
Self-pay	1,128,274	789,087	339,187
TennCare Managed Care plans	1,817,970	1,031,965	786,005
	<u>\$ 4,538,769</u>	<u>\$ 2,068,711</u>	\$ 2,470,058
Medicaid Managed Care wraparound			829,137
Tennessee Department of Health Essential Access Pool			101,068
			<u>\$ 3,400,263</u>
			<u>\$ 3,477,933</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 6 - PATIENT SERVICES REVENUE (Continued)

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

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

For the years ended June 30, 2012 and 2011, the Organization recognized approximately 6% of net patient service revenue from services provided to Medicare beneficiaries.

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

For the years ended June 30, 2012 and 2011, the Organization recognized approximately 94% of net patient services revenue from services provided to non-Medicare Managed Care patients.

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

NOTE 7 - SHORT-TERM NOTE PAYABLE

The Organization has a \$500,000 revolving line of credit with SunTrust, Nashville, Tennessee. The line is due at the maturity date and is collateralized by substantially all of the Organization's assets. Interest is payable monthly at 3.00% above the LIBOR rate. The line of credit expires in March 2013. There are no outstanding borrowings on this line of credit at June 30, 2012 and 2011.

NOTE 8 - CONTRACT SERVICES AND OTHER GRANTS

For the years ended June 30, 2012 and 2011, contract services and other grants revenue consists of the following:

	<u>2012</u>	<u>2011</u>
Vanderbilt University Medical Center: Basic Nurse Education and Practice Grant	\$ -	\$ 157,649
Employer Health	2,976,007	2,725,021
TennCare EHR Provider Incentive Program	<u>195,000</u>	<u>680,500</u>
	<u>\$ 3,171,007</u>	<u>\$ 3,563,170</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 9 - RETIREMENT PLAN

The Organization has a defined contribution retirement plan covering eligible employees with one year of continuous service. This plan requires employee and matching employer contributions. Participant accounts under this plan are immediately 100% vested. Pension expense amounted to \$37,327 and \$21,711 for the years ended June 30, 2012 and 2011, respectively.

NOTE 10 - VANDERBILT UNIVERSITY MEDICAL CENTER

The Organization has some board members who are also members of the management of Vanderbilt University Medical Center ("Vanderbilt"). The Organization has a long-standing relationship with Vanderbilt; as such, there are various transactions which include staffing provided by Vanderbilt. The cost of such services is allocated to consultants and contractual services which totaled \$3,464,033 and \$3,512,989 for the years ended June 30, 2012 and 2011, respectively.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

Operating Leases: The Organization operates out of three clinic facilities. Two facilities are donated and recorded as in-kind. One facility is operated under a cancelable operating lease which requires a one-year notice before the Organization is allowed to terminate the agreement. The Organization also has various equipment leases. Leases terminate at various times through November 2018. Rent expense totaled \$143,830 and \$124,657 for the years ended June 30, 2012 and 2011.

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

2013	\$ 131,335
2014	133,361
2015	135,397
2016	138,022
2017	91,413
Thereafter	<u>77,443</u>
	<u>\$ 706,971</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 12 - FUNCTIONAL EXPENSES

The Organization provides general health care services to patients within its geographic location. Functional expenses categorized by program and supporting services for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 6,526,278	\$ 5,913,991
General and administrative	<u>1,294,464</u>	<u>1,515,968</u>
	<u>\$ 7,820,742</u>	<u>\$ 7,429,959</u>

SUPPLEMENTARY INFORMATION

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Consolidated Health Centers:			
Health Center Cluster	93.224*	H80CS08767	\$ 815,494
			<u>\$ 815,494</u>

* Denotes a major program as defined by OMB Circular A-133

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization for the year ended June 30, 2012 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
SCHEDULE OF STATE FINANCIAL ASSISTANCE
Year ended June 30, 2012

<u>State Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning Receivable</u>	<u>Cash Receipts</u>	<u>Expenditures / Revenue</u>	<u>Ending Receivable</u>
Tennessee Department of Health:						
Essential Access Pool	N/A	GR-10-29132-00	<u>\$ 20,459</u>	<u>\$ 97,357</u>	<u>\$ 101,068 *</u>	<u>\$ 24,170</u>
Total state financial assistance			<u>\$ 20,459</u>	<u>\$ 97,357</u>	<u>\$ 101,068</u>	<u>\$ 24,170</u>

* Based on revenue earned per award.

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

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

We have audited the financial statements of University Community Health Services, Inc. (the "Organization") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. 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.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain matters that we reported to management of the Organization in a separate letter dated December 17, 2012.

This report is intended solely for the information and use of the Board of Directors and management of the Organization, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Horwath LLP

South Bend, Indiana
December 17, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of University Community Health Services, Inc. (the "Organization") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2012. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

As described in item #12-01 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding Board composition that are applicable to its Health Center Cluster. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiency in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #12-01 to be a material weakness.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing over compliance and internal controls over compliance with the requirements that could have a direct and material effect on each major program and the results of that testing, and not to provide a legal determination of compliance with those requirements or an opinion on the effectiveness of internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
December 17, 2012

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | | | |
|---|--|--------------------------|-------------------------------|
| • | Material weakness(es) identified? | <u> </u>
Yes | <u> X </u>
No |
| • | Significant deficiencies identified that are not considered to be material weaknesses? | <u> </u>
Yes | <u> X </u>
None reported |

Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No
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Federal Awards:

Internal control over major programs:

- | | | | |
|---|--|--------------------------|-------------------------------|
| • | Material weakness(es) identified? | <u> X </u>
Yes | <u> </u>
No |
| • | Significant deficiencies identified that are not considered to be material weaknesses? | <u> </u>
Yes | <u> X </u>
None reported |

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

<u> X </u> Yes	<u> </u> No
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Identification of major programs:

CFDA Number(s)
93.224

Name of Federal Program or Cluster
Health Center Cluster

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

Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u> No
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UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Section II - Financial Statement Findings

- None.

Section III - Federal Award Findings and Questioned Costs

Finding #12-01: Board Composition

Criteria: It is management's responsibility to comply with all federal grant requirements.

Condition: During the course of our audit, we noted the composition of the Board of Directors does not meet the requirements indicated by the Health Center Cluster grant. The grant requires more than one half of the board's members to be consumer members of the Organization's health clinic. The grant further requires that no more than one half of the non-consumer board members may derive more than 10% of their annual income from the health care industry.

Cause: Controls were not in place to sufficiently monitor the change in board composition as members were added or retired.

Effect: The Organization is not in compliance with grant requirements.

Recommendation: We recommend management bring the board composition into compliance and create a board member rotation plan to ensure continued compliance.

Management's Response: The UCHS Board is in the process of being re-organized to meet all FQHC requirements; this process will be completed by March, 2013.

Section IV - Prior Year Findings and Questioned Costs

Finding #11-01: Internal Controls Over Financial Reporting

Summary: During the course of our audit it was noted that journal entries are not formally approved by someone in the Organization. We further noted that all members of the Finance Department had full access to all areas of the Great Plains system. It also came to our attention that several month-end reconciliations had not been performed and others did not contain notations indicating that the reconciliations were reviewed by an authorized individual. We acknowledge that management represents there were controls in place; however, due to the lack of documentation to support these controls we were not able to corroborate their existence. Improper journal entries, whether due to error or fraud, could be posted to the general ledger and not discovered by management.

Resolution: Management maintains a standard month-end Journal Entry checklist, which lists all journal entries to be completed each month. During our testing, we noted that all checklists, reconciliations and journal entries were properly reviewed by an authorized individual.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Finding 11-02 – Controls Over Federal Grant Reports and Requests

Summary: During the course of our audit we noted that all required financial reports and drawdown requests are submitted by the Controller and non-financial reports are submitted by the Chief Operating Officer. The required reports and requests are generated and submitted timely; however, there is no formally documented review by a supervisory Organization employee. We note from Chapter 9 of the AICPA Audit and Accounting Guide for GAS and A-133 Audits that the absence of noncompliance detected by a compliance test does not provide audit evidence that controls related to a compliance requirement are effective. We further noted that management does not have a system in place to track reporting deadlines under the grant. We acknowledge that management represents there were controls in place; however, due to the lack of documentation to support these controls we were not able to corroborate their existence. The review and approval of grant reports and requests by a supervisory level of management should be formally documented. Improper grant requests and reporting, whether due to error or fraud, could be submitted to the granting authority.

Resolution: This finding is partially resolved. Management has implemented a monthly checklist to document the preparation and review of grant reports and requests. During our testing, we tested a sample of checklists, reconciliations and report submissions and noted they were properly reviewed by an authorized individual. Management is working on the establishment of an internal calendar to monitor required report deadlines and submissions. Management is currently using the federal electronic handbook for such a purpose, but internal control guidelines prohibit the federal government from providing an organizational control.

Finding 11-03 – Data Collection Form

Summary: The Office of Management and Budget (OMB) requires that Form SF-SAC (Data Collection Form) be filed with the Federal Audit Clearinghouse within nine months of the fiscal year end of the Organization. During the course of internal control testing over compliance, it was noted that the 2010 Data Collection Form was submitted after the nine month deadline.

Resolution: Management had no control over this process; the CPA Firm that was contracted in the prior year to perform the audit had problems in their internal operations which delayed the audit completion. The 2011 report was submitted timely.