

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Financial Statements and Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)



UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

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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, 2016 and 2015, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our 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 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*, and the schedule of state financial assistance and related notes 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 November 1, 2016 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
November 1, 2016

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Statements of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 707,505	\$ 461,889
Patient accounts receivable, net of allowance for doubtful accounts of \$225,539 and \$91,439 in 2016 and 2015, respectively	345,446	389,246
Contract services and other grants receivable	192,557	151,447
Prepaid expenses and other	<u>57,300</u>	<u>31,209</u>
Total current assets	1,302,808	1,033,791
 Deposits	 10,379	 10,379
Property and equipment, net	<u>391,718</u>	<u>571,921</u>
	\$ <u>1,704,905</u>	\$ <u>1,616,091</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Current portion of capital lease obligation	\$ 4,619	\$ 5,083
Accounts payable and accrued expenses	121,949	298,859
Accrued payroll and related benefits	167,604	258,280
Deferred revenue	-	28,699
Deferred rent, current portion	<u>2,832</u>	<u>1,181</u>
Total current liabilities	297,004	592,102
 Deferred rent, net of current portion	 4,921	 7,753
Capital lease obligation, excluding current portion	-	4,618
Other long-term liabilities	<u>1,480</u>	<u>1,077</u>
Total liabilities	303,405	605,550
 Net assets - unrestricted	 <u>1,401,500</u>	 <u>1,010,541</u>
	\$ <u>1,704,905</u>	\$ <u>1,616,091</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted revenue, grants and other support:		
Patient service revenue, net of contractual adjustments	\$ 2,089,630	\$ 1,883,972
Provision for bad debts	<u>(99,312)</u>	<u>(72,405)</u>
Net patient service revenue	1,990,318	1,811,567
DHHS grants	1,606,566	1,238,892
Contract services and other grants	1,856,305	2,810,533
Contributions and other	164,047	26,806
In-kind contributions	<u>62,612</u>	<u>102,732</u>
Total revenue, grants and other support	<u>5,679,848</u>	<u>5,990,530</u>
Expenses:		
Salaries, wages and benefits	3,582,593	3,559,583
Professional fees	310,997	437,276
Medical supplies	287,664	268,422
Technology services	240,684	320,095
Contract services	186,614	627,876
Depreciation	162,979	201,602
Building and equipment rental	100,411	179,556
Building services	81,173	81,415
Insurance	71,004	74,362
Telephone	70,172	71,053
Office and administrative	58,018	111,609
Marketing and promotion	35,834	66,544
Other	80,570	86,057
Loss on disposal of property and equipment	<u>20,176</u>	<u>75,604</u>
Total expenses	<u>5,288,889</u>	<u>6,161,054</u>
Change in net assets	390,959	(170,524)
Net assets at beginning of year	<u>1,010,541</u>	<u>1,181,065</u>
Net assets at end of year	\$ <u>1,401,500</u>	\$ <u>1,010,541</u>

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>390,959</u>	\$ <u>(170,524)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	162,979	201,602
Loss on disposal of property and equipment	20,176	75,604
Provision for bad debts	99,312	72,405
In-kind donation of property and equipment	-	(66,825)
Gain from write-off of Vanderbilt contract services payable - see Note 13	(151,652)	-
Changes in assets and liabilities:		
Patient accounts receivable	(55,512)	(11,565)
Contract service and grants receivable	(41,110)	257,395
Prepaid expenses and other assets	(26,091)	23,345
Accounts payable and accrued expenses	(25,258)	(151,415)
Accrued payroll and related benefits	(90,676)	3,465
Deferred revenue	(28,699)	(3,701)
Deferred rent	(1,181)	(12,193)
Other long-term liabilities	<u>403</u>	<u>1,077</u>
Net cash provided by operating activities	<u>253,650</u>	<u>218,670</u>
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	2,311	-
Purchases of property and equipment	<u>(5,263)</u>	<u>(21,707)</u>
Net cash used by investing activities	(2,952)	(21,707)
Cash flows from financing activities - payments of capital leases	<u>(5,082)</u>	<u>(801)</u>
Increase in cash and cash equivalents	245,616	196,162
Cash at beginning of year	<u>461,889</u>	<u>265,727</u>
Cash at end of year	\$ <u>707,505</u>	\$ <u>461,889</u>
Supplemental disclosure of non-cash activities:		
Equipment acquired through capital lease	\$ <u>-</u>	\$ <u>10,502</u>

See accompanying notes to the financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2016 and 2015

(1) Nature of operations

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

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

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

(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) 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 - 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.

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.

Notes to the Financial Statements

June 30, 2016 and 2015

(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.

Notes to the Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015, 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, 2015. 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.

Notes to the Financial Statements

June 30, 2016 and 2015

(k) 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.

(l) 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.

(m) 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, 2016 and 2015, in-kind contributions totaled \$62,612 and \$102,732, respectively. In-kind donations in 2016 relate to donated lab fees and facility space. In-kind donations in 2015 relate to donated property and equipment 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.

Notes to the Financial Statements

June 30, 2016 and 2015

(n) 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 \$106,251 and \$170,000 of revenue included in contract services and other grants revenue for HITECH incentives from Medicaid during the years ended June 30, 2016 and 2015, respectively. The Organization has demonstrated meaningful use of certified EHR technology or has completed attestations to their adoption or implementation of certified EHR technology.

(o) 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, 2016 and 2015.

(p) Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order for them to conform to the 2016 presentation. These reclassifications had no effect on net assets or change in net assets as previously reported.

Notes to the Financial Statements

June 30, 2016 and 2015

(q) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2016 and November 1, 2016 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Medicare	\$ 17,882	\$ 30,240
Medicaid Managed Care wraparound	150,348	108,508
TennCare Managed Care plans	46,983	108,456
TennCare Department of Health - Essential Access Pool	37,353	32,585
Commercial	148,966	84,922
Self-pay	<u>169,453</u>	<u>115,974</u>
	570,985	480,685
Less: allowance for doubtful accounts	<u>(225,539)</u>	<u>(91,439)</u>
	<u>\$ 345,446</u>	<u>\$ 389,246</u>

(5) Contract services and other grants receivable

Contract services and other grants receivable consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Employer Health	\$ 165,998	\$ 148,251
Other	<u>26,559</u>	<u>3,196</u>
	<u>\$ 192,557</u>	<u>\$ 151,447</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2016 and 2015

(6) Property and equipment

The Organization's property and equipment and the related accumulated depreciation at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 113,936	\$ 113,936
Leasehold improvements	1,365,996	1,365,996
Office and medical equipment	186,479	228,191
Computer equipment	<u>239,472</u>	<u>239,472</u>
	1,905,883	1,947,595
Accumulated depreciation	<u>(1,514,165)</u>	<u>(1,375,674)</u>
	<u>\$ 391,718</u>	<u>\$ 571,921</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$162,979 and \$201,602, respectively.

In the event the DHHS grants are terminated, the DHHS reserves the right to request all property and equipment purchased with grant funds be returned to the DHSS from the Organization.

(7) 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 3.45% at June 30, 2016. 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, 2016 and 2015. The revolving line of credit is collateralized by substantially all of the Organization's assets.

(8) Capital lease obligations

The Organization has entered into a capital lease agreement to finance the acquisition of certain assets. The Organization's obligation under the capital lease at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Minimum lease payments payable	\$ 4,822	\$ 10,607
Less: portion representing interest	<u>203</u>	<u>906</u>
Capital lease obligations	4,619	9,701
Less: current portion	<u>4,619</u>	<u>5,083</u>
Long-term portion	<u>\$ -</u>	<u>\$ 4,618</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2016 and 2015

(9) Net patient service revenue

For the years ended June 30, 2016 and 2015, patient service revenue consists of the following:

	<u>2016</u>			<u>2015</u>
		Charitable and		
	<u>Gross</u>	<u>Contractual</u>	<u>Net</u>	<u>Net</u>
	<u>Charges</u>	<u>Allowances</u>	<u>Revenue</u>	<u>Revenue</u>
Medicare	\$ 253,342	\$ 123,030	\$ 130,312	\$ 121,846
TennCare Managed Care plans	1,439,851	900,214	539,637	503,923
Commercial	1,081,364	588,363	493,001	474,973
Self-pay	<u>1,325,761</u>	<u>1,188,061</u>	<u>137,700</u>	<u>149,230</u>
	<u>\$ 4,100,318</u>	<u>\$ 2,799,668</u>	1,300,650	1,249,972
Medicaid Managed Care wraparound			606,677	497,314
Tennessee Department of Health Essential Access Pool			182,303	136,686
Less: provision for bad debts			<u>(99,312)</u>	<u>(72,405)</u>
			<u>\$ 1,990,318</u>	<u>\$ 1,811,567</u>

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

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

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

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2016 and 2015

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.

(10) DHHS grants

For the years ended June 30, 2016 and 2015, the Organization received the following grant revenue from the DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>2016</u>		<u>2015</u>
		<u>Total Grant</u>	<u>Revenue Recognized</u>	<u>Revenue Recognized</u>
6 H80CS08767	11/01/13 - 10/31/14	\$ 1,298,776	\$ 157,085	\$ 516,420
6 H80CS08767	11/01/14 - 2/29/16	1,870,814	960,185	722,472
6 H80CS08767	3/01/16 - 2/28/17	<u>1,467,887</u>	<u>489,296</u>	<u>-</u>
		<u>\$ 4,637,477</u>	<u>\$ 1,606,566</u>	<u>\$ 1,238,892</u>

(11) Contract services and other grants

For the years ended June 30, 2016 and 2015, contract services and other grants revenue consists of the following:

	<u>2016</u>	<u>2015</u>
Employer Health	\$ 1,750,054	\$ 2,623,345
TennCare EHR Provider Incentive Program	106,251	170,000
Other	<u>-</u>	<u>17,188</u>
	<u>\$ 1,856,305</u>	<u>\$ 2,810,533</u>

(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 \$71,589 and \$64,435 for the years ended June 30, 2016 and 2015, respectively, and are included in salaries, wages and benefits in the accompanying statements of operations and changes in net assets.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2016 and 2015

(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. The cost of these services was included in contract services on the accompanying statement of operations and changes in net assets and totaled \$435,830 for the year ended June 30, 2015. There were no costs for these services incurred in 2016. 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, 2017.

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 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 April 2019. Rent expense totaled \$100,411 and \$179,556 for the years ended June 30, 2016 and 2015, 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 \$7,753 and \$8,934 at June 30, 2016 and 2015, respectively.

Approximate future minimum lease payments under operating leases consist of the following at June 30, 2016:

2017	\$	88,000
2018		88,000
2019		<u>20,000</u>
	\$	<u>196,000</u>

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Notes to the Financial Statements

June 30, 2016 and 2015

(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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Health care services	\$ 4,152,088	\$ 4,903,385
General and administrative	<u>1,136,801</u>	<u>1,257,669</u>
	\$ <u>5,288,889</u>	\$ <u>6,161,054</u>

(16) Subsequent event

Subsequent to year end, the Organization has been awarded approximately \$180,000 of additional grant funds from DHHS related to the March 1, 2016 through February 28, 2017 grant period.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards and Related Notes

Year ended June 30, 2016

<u>Program Title</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>
U.S. Department of Health and Human Services:						
Consolidated Health Centers:						
Health Center Cluster	93.224	H80CS08767	\$ -	\$ 234,974	\$ 234,974	\$ -
Affordable Care Act Grants under the Health Center Program	93.527	H80CS08767	-	1,371,592	1,371,592	-
Total Health Center Cluster			\$ -	\$ 1,606,566	\$ 1,606,566	\$ -

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Organization for the year ended June 30, 2016 and is presented on the accrual basis of accounting. 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

The Organization did not expend any federal awards during the year ended June 30, 2016 in the form of non-cash assistance.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Schedule of State Financial Assistance and Related Notes

Year ended June 30, 2016

<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:						
Total state financial assistance - Essential Access Pool	N/A	GR-10-29132-00	\$ <u>32,585</u>	\$ <u>177,535</u>	\$ <u>182,303</u>	\$ <u>37,353</u>

Note 1 - Basis of presentation

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of the Organization for the year ended June 30, 2016 and is presented on the accrual basis of accounting. 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

The Organization did not expend any state financial assistance during the year ended June 30, 2016 in the form of non-cash assistance.

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, 2016, 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 November 1, 2016.

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.

L B M C, P C

Brentwood, Tennessee
November 1, 2016

**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, 2016. 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, 2016.

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
November 1, 2016

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

(1) SUMMARY OF AUDITORS' RESULTS

- (a) The independent auditors' report expressed an unmodified opinion on the financial statements.
- (b) No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the 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*.
- (c) No instances of noncompliance material to the financial statements of the Organization, which would be required to be reported in accordance with *Government Accounting Standards*, were disclosed during the audit.
- (d) No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.
- (e) The independent auditors' report on compliance for the major federal award programs for the Organization expresses an unmodified opinion.
- (f) There are no audit findings relative to the federal award programs for the Organization which are required to be reported under Section 516(a) of the Uniform Guidance.
- (g) The programs tested as major programs included:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224 and 93.527	Health Center Cluster
- (h) The threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The Organization qualified as a low-risk auditee.

(2) FINDINGS RELATING TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None noted

(3) FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

None noted

(4) PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None noted