

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

***As of and for the Years Ended June 30, 2019  
and 2018***

***And Report of Independent Auditor***

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
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## **Report of Independent Auditor**

To the Board of Directors  
University Community Health Services, Inc.  
d/b/a Connecticut Health  
Nashville, Tennessee

We have audited the accompanying financial statements of University Community Health Services, Inc., d/b/a Connecticut Health (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related statement of functional expenses for the year June 30, 2019, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting 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., d/b/a Connecticut Health, as of June 30, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Changes in Financial Statement Presentation**

As discussed in Note 2, University Community Health Services, Inc. d/b/a Connectus Health adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented, with the exception of the statement of functional expenses and of the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

### **OTHER MATTERS**

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2019 on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control over financial reporting and compliance.



Nashville, Tennessee  
October 23, 2019

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

*JUNE 30, 2019 AND 2018*

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 994,575	\$ 861,323
Patient accounts receivable, net	469,205	353,978
Contract services and other grants receivable	317,324	289,349
Prepaid expenses and other	96,929	91,096
Total Current Assets	1,878,033	1,595,746
Deposits	12,182	12,182
Property and equipment, net	129,808	264,552
<b>Total Assets</b>	<b>\$ 2,020,023</b>	<b>\$ 1,872,480</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Current portion of capital lease obligations	\$ 50,418	\$ 49,290
Accounts payable and accrued expenses	114,797	172,941
Accrued payroll and related benefits	145,766	119,260
Deferred revenue	-	684
Deferred rent, current portion	2,567	815
Total Current Liabilities	313,548	342,990
Capital lease obligations, excluding current portion	9,179	60,515
Other long-term liabilities	5,291	5,291
Total Liabilities	328,018	408,796
Net Assets:		
Without donor restrictions	1,666,406	1,463,684
With donor restrictions	25,599	-
Total Net Assets	1,692,005	1,463,684
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,020,023</b>	<b>\$ 1,872,480</b>

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**

*YEAR ENDED JUNE 30, 2019*

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue, Grants, and Other Support:			
Patient service revenue, net of contractual adjustments	\$ 2,393,400	\$ -	\$ 2,393,400
Contract services and other grants	2,045,442	50,000	2,095,442
DHHS grants	1,886,367	-	1,886,367
In-kind contributions	104,425	-	104,425
Miscellaneous	85,597	-	85,597
Net assets released from restrictions	24,401	(24,401)	-
Total Revenue, Grants, and Other Support	6,539,632	25,599	6,565,231
Expenses:			
Salaries, wages, and benefits	4,105,359	-	4,105,359
Professional fees	512,230	-	512,230
Medical supplies	313,540	-	313,540
Contract services	266,041	-	266,041
Technology services	247,580	-	247,580
Depreciation	169,774	-	169,774
Marketing and promotion	154,400	-	154,400
Building services	103,109	-	103,109
Building and equipment rental	102,955	-	102,955
Telephone	85,279	-	85,279
Employee recruiting and retention	78,573	-	78,573
Office and administrative	58,574	-	58,574
Insurance	49,899	-	49,899
Other	44,996	-	44,996
Meals and entertainment	27,518	-	27,518
Repairs and maintenance	17,083	-	17,083
Total Expenses	6,336,910	-	6,336,910
Change in net assets	202,722	25,599	228,321
Net assets, beginning of year	1,463,684	-	1,463,684
Net assets, end of year	\$ 1,666,406	\$ 25,599	\$ 1,692,005

The accompanying notes to the financial statements are an integral part of this statement.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**

*YEAR ENDED JUNE 30, 2018*

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue, Grants, and Other Support:			
Patient service revenue, net of contractual adjustments	\$ 2,217,850	\$ -	\$ 2,217,850
Contract services and other grants	2,037,658	-	2,037,658
DHHS grants	1,669,535	-	1,669,535
Miscellaneous	97,264	-	97,264
In-kind contributions	76,632	-	76,632
Net assets released from restrictions	-	-	-
Total Revenue, Grants, and Other Support	6,098,939	-	6,098,939
Expenses:			
Salaries, wages, and benefits	4,079,247	-	4,079,247
Professional fees	432,805	-	432,805
Medical supplies	352,366	-	352,366
Contract services	288,327	-	288,327
Technology services	250,710	-	250,710
Depreciation	184,010	-	184,010
Building services	103,438	-	103,438
Marketing and promotion	98,365	-	98,365
Building and equipment rental	92,162	-	92,162
Telephone	81,883	-	81,883
Employee recruiting and retention	69,487	-	69,487
Insurance	53,364	-	53,364
Office and administrative	51,311	-	51,311
Meals and entertainment	23,991	-	23,991
Repairs and maintenance	23,265	-	23,265
Other	22,978	-	22,978
Total Expenses	6,207,709	-	6,207,709
Change in net assets	(108,770)	-	(108,770)
Net assets, beginning of year	1,572,454	-	1,572,454
Net assets, end of year	\$ 1,463,684	\$ -	\$ 1,463,684

The accompanying notes to the financial statements are an integral part of this statement.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**STATEMENT OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2019*

	<b>Program Services</b>			<b>Supporting Services</b>	
	<b>FQHC</b>	<b>Employer Health</b>	<b>Subtotal</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries, wages, and benefits	\$ 2,354,846	\$ 944,837	\$ 3,299,683	\$ 805,676	\$ 4,105,359
Professional fees	216,167	30,489	246,656	265,574	512,230
Medical supplies	255,262	58,278	313,540	-	313,540
Contract services	160,845	30,019	190,864	75,177	266,041
Technology services	14,855	17,331	32,186	215,394	247,580
Depreciation	-	-	-	169,774	169,774
Marketing and promotion	13,254	72,037	85,291	69,109	154,400
Building services	29,414	-	29,414	73,695	103,109
Building and equipment rental	-	-	-	102,955	102,955
Telephone	71,060	6,914	77,974	7,305	85,279
Employee recruiting and retention	33,104	-	33,104	45,469	78,573
Office and administrative	43,728	1,959	45,687	12,887	58,574
Insurance	-	-	-	49,899	49,899
Other	19,465	-	19,465	25,531	44,996
Meals and entertainment	8,400	-	8,400	19,118	27,518
Repairs and maintenance	-	-	-	17,083	17,083
	<u>\$ 3,220,400</u>	<u>\$ 1,161,864</u>	<u>\$ 4,382,264</u>	<u>\$ 1,954,646</u>	<u>\$ 6,336,910</u>

The accompanying notes to the financial statements are an integral part of this statement.



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

*YEARS ENDED JUNE 30, 2019 AND 2018*

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 228,321	\$ (108,770)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	169,774	184,010
Changes in assets and liabilities:		
Patient accounts receivable	(115,227)	150,172
Contract service and grants receivable	(27,975)	(124,283)
Prepaid expenses and other assets	(5,833)	16,211
Accounts payable and accrued expenses	(58,144)	79,502
Accrued payroll and related benefits	26,506	10,606
Deferred revenue	(684)	(28,605)
Deferred rent	1,752	(4,113)
Other long-term liabilities	-	3,811
Net cash provided by operating activities	<u>218,490</u>	<u>178,541</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	<u>(35,030)</u>	<u>(19,866)</u>
Net cash used in investing activities	<u>(35,030)</u>	<u>(19,866)</u>
<b>Cash flows from financing activities:</b>		
Payments of capital leases	<u>(50,208)</u>	<u>(47,989)</u>
Net cash used in financing activities	<u>(50,208)</u>	<u>(47,989)</u>
Increase in cash	133,252	110,686
Cash, beginning of year	861,323	750,637
Cash, end of year	<u><u>\$ 994,575</u></u>	<u><u>\$ 861,323</u></u>

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

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**Note 1—Nature of operations**

University Community Health Services, Inc., d/b/a Connectus Health, (the “Organization”) operates community health centers located in Nashville, Metro, and Davidson County, Tennessee. The Organization provides a broad range of health services to a largely medically underserved population. In May 2017, the Organization rebranded as Connectus Health to better reflect its comprehensive mission and reach.

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

The U.S. Department of Health and Human Services (the “DHHS”) provides substantial support to the Organization. The Organization is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor. A major reduction of funds by this grantor could have a significant effect on future operations.

**Note 2—Summary of significant accounting policies**

*Basis of Presentation* – The accompanying 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”). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Directors.

*Net Assets with Donor Restrictions* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of operations and changes in net assets as net assets released from restrictions.

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

*Cash* – For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts, and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

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**Note 2—Summary of significant accounting policies (continued)**

*Liquidity* – Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash and liabilities are presented according to their maturity resulting in use of cash.

*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.

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

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

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

*Deferred Revenue* – Deferred revenue consisted of employer health contract funds received but not yet earned as of June 30, 2019 and 2018.

*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.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

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**Note 2—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.

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

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

*Contributions* – Contributions are recognized when received as contributions without restriction if specified for the current period and there are no donor-imposed restrictions. Contributions specified for future periods or with donor-imposed restrictions are recognized in the period received as contributions with restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions are satisfied in the year in which the contributions are recognized.

*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, 2019 and 2018, in-kind contributions totaled \$104,425 and \$76,632, respectively. In-kind donations in 2019 and 2018 relate to donated lab fees and facility space.

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

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

Using the grant accounting method of revenue recognition, the Organization recognized \$25,500 of revenue included in contract services and other grants revenue for HITECH incentives from Medicaid during the year ended June 30, 2018. The Organization did not received any revenue for HITECH incentives from Medicaid during the year ended June 30, 2019. The Organization has demonstrated meaningful use of certified EHR technology or has completed attestations as to their adoption or implementation of certified EHR technology.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

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**Note 2—Summary of significant accounting policies (continued)**

*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.

*Allocation of Functional Expenses* – Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. Expenses that were allocated consist primarily of salary and related expenses which have been allocated based on time incurred and spent.

*New Accounting Pronouncement* – On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented, with the exception of the statement of functional expenses and of the disclosure liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

*Forthcoming Accounting Pronouncements* – In May 2014, the FASB issued ASU 2014-09. The amendments in this update create Topic 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. This guidance is effective for the year ending June 30, 2020. Management is currently evaluating the impact of this standard on the Organization’s financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This guidance introduces a lessee model that brings substantially all leases on the statements of financial position. This guidance is effective for the year ending June 30, 2021. Management is currently evaluating the impact of this standard on the Organization’s financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance in this ASU clarifies the accounting guidance for contributions received and contributions made. The amendments in this ASU will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This guidance is effective for the year ending June 30, 2020. Management is currently evaluating the impact of this standard on the Organization’s financial statements.

*Subsequent Events* – The Organization has evaluated subsequent events through October 23, 2019, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

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**Note 3—Liquidity and availability**

The main mission of the Organization is to provide a broad range of health services to a largely medically underserved population. The Organization considers all normal operating expenses incurred to support this mission to be general expenditures. Expenses incurred to support certain donor-specified purposes, using donor-restricted funds, are not considered to be general expenditures. The table below represents financial assets available for general expenditures within one year at June 30, 2019:

Financial assets at year-end	
Cash	\$ 994,575
Patient accounts receivable, net	469,205
Contract services and other grants receivable	<u>317,324</u>
Total financial assets	1,781,104
Less amounts not available to be used for general expenditures within one year at June 30, 2019:	
Net assets with donor restrictions	<u>(25,599)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,755,505</u>

The Organization is substantially supported by federal grants. As part of the Organization's liquidity management, it structures financial assets to be available for general expenditures, liabilities, and other obligations as they come due. The Organization maintains a line of credit with a financial institution with a credit limit of \$250,000 as of June 30, 2019, which can be drawn upon if needed to support general expenditures (see Note 9).

**Note 4—Credit risk and other concentrations**

The Organization generally maintains cash on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash. At June 30, 2019, the Organization had bank balances of approximately \$791,000 in excess of these limits.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
NOTES TO THE FINANCIAL STATEMENTS

*JUNE 30, 2019 AND 2018*

**Note 5—Patient accounts receivable**

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

	<b>2019</b>	<b>2018</b>
Medicare	\$ 18,533	\$ 26,152
Medicaid Managed Care wraparound	157,898	132,855
TennCare Manage Care plans	53,362	46,431
TennCare Department of Health - Essential Access Pool	55,743	29,955
Commercial	91,245	51,683
Self-pay	399,210	350,196
	<u>775,991</u>	<u>637,272</u>
Less allowance for doubtful accounts	<u>(306,786)</u>	<u>(283,294)</u>
	<u><u>\$ 469,205</u></u>	<u><u>\$ 353,978</u></u>

**Note 6—Sliding fees**

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

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

The following information measures the level of charity care provided during the year ended June 30, 2019 under the sliding fee policy:

Gross charges discounted, at established rates	\$ 2,176,534
Estimated costs and expenses incurred to provide sliding fee discounts included in the statement of activities	\$ 1,896,603
Equivalent percentage of patients receiving sliding fees to all patients served	45%

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
NOTES TO THE FINANCIAL STATEMENTS

*JUNE 30, 2019 AND 2018*

**Note 7—Contract services and other grants receivable**

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

	<b>2019</b>	<b>2018</b>
Employer Health	\$ 265,199	\$ 236,410
Other	52,125	52,939
	<u>\$ 317,324</u>	<u>\$ 289,349</u>

**Note 8—Property and equipment**

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

	<b>2019</b>	<b>2018</b>
Furniture and fixtures	\$ 132,645	\$ 120,960
Leasehold improvements	1,406,164	1,393,812
Office and medical equipment	203,093	192,100
Computer equipment	432,833	432,833
	<u>2,174,735</u>	<u>2,139,705</u>
Accumulated depreciation	<u>(2,044,927)</u>	<u>(1,875,153)</u>
	<u>\$ 129,808</u>	<u>\$ 264,552</u>

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

**Note 9—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 5.4%, at June 30, 2019. 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, 2019 and 2018. The revolving line of credit is collateralized by substantially all of the Organization's assets.



**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

**Note 10—Capital lease obligations**

The Organization has entered into capital lease agreements to finance the acquisition of certain assets. The Organization's obligations under capital leases at June 30 are summarized as follows:

	<b>2019</b>	<b>2018</b>
Minimum lease payments payable	\$ 60,684	\$ 113,027
Less portion representing interest	(1,087)	(3,222)
Capital lease obligations	59,597	109,805
Less current portion	(50,418)	(49,290)
Long-term portion	<u>\$ 9,179</u>	<u>\$ 60,515</u>

**Note 11—Net patient service revenue**

For the years ended June 30, 2019 and 2018, patient service revenue consists of the following:

	2019			2018
	Gross Charges	Charitable and Contractual Allowances	Net Revenue	Net Revenue
Medicare	\$ 357,253	\$ 269,021	\$ 88,232	\$ 124,179
TennCare Managed Care plans	1,925,056	1,375,209	549,847	506,362
Commercial	2,192,651	1,295,742	896,909	711,727
Self-pay	1,838,445	1,742,633	95,812	139,959
	<u>\$ 6,313,405</u>	<u>\$ 4,682,605</u>	1,630,800	1,482,227
Medicaid Manage Care wraparound			654,317	630,799
Tennessee Department of Health Essential Access Pool			108,283	104,824
			<u>\$ 2,393,400</u>	<u>\$ 2,217,850</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.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

**Note 11—Net patient service revenue (continued)**

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

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

**Note 12—Contract services and other grants revenue**

For the years ended June 30, 2019 and 2018, contract services and other grants revenue consist of the following:

	<b>2019</b>	<b>2018</b>
Employer Health	\$ 1,672,224	\$ 1,738,448
CHIP Cover Kids	244,422	199,799
Per Member Per Month PCMP	120,708	73,911
American Cancer Society - NFL grant	50,000	-
Quality Incentive	8,088	-
TennCare EHR Provider Incentive Program	-	25,500
	<u>\$ 2,095,442</u>	<u>\$ 2,037,658</u>

**Note 13—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 \$68,024 and \$77,916 for the years ended June 30, 2019 and 2018, 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.**  
**D/B/A CONNECTUS HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

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**Note 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, 2019.

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

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, Medicare, TennCare, fraud, and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes the Organization is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

*Health Care Reform* – In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the “Health Care Reform Legislation”). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation which may impact the TennCare program. While the full impact of the Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance, and managed competition may materially impact the Organization’s operations.

*Operating Leases* – The Organization operates out of two clinic facilities. One facility is donated and recorded as in-kind. The other facility is operated under a cancelable operating lease which expires in July 2021. The Organization also has various equipment leases, which terminate at various times through March 2021. Rent expense totaled \$102,955 and \$92,162 for the years ended June 30, 2019 and 2018, 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 \$2,567 and \$815 at June 30, 2019 and 2018, respectively.

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**D/B/A CONNECTUS HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

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**Note 14—Commitments and contingencies (continued)**

Approximate future minimum lease payments under operating leases with non-cancellable lease terms in excess of one year consist of the following at June 30, 2019:

**Years Ending June 30,**

2020	\$	63,887
2021		66,687
2022		<u>5,577</u>
	\$	<u>136,151</u>

**Note 15—Net assets with donor restrictions**

Net assets with donor restrictions consist of the following at June 30:

	<b><u>2019</u></b>	<b><u>2018</u></b>
American Cancer Society - NFL Grant	<u>\$ 25,599</u>	<u>\$ -</u>

## **SUPPLEMENTAL INFORMATION**

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

*YEAR ENDED JUNE 30, 2019*

<u>Grant Description</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>Federal Awards:</b>			
U.S. Department of Health and Human Services:			
Health Center Cluster:			
Health Center Program	93.224	H80CS08767	\$ 636,228
Affordable Care Act			
Grants under the Health Center Program	93.527	H80CS08767	<u>1,250,139</u>
Total Health Center Cluster			<u>1,886,367</u>
Total Federal Awards			<u>1,886,367</u>
<b>State Awards:</b>			
Tennessee Department of Health:			
Health Care Safety Net Primary Care Services	N/A	41703	<u>108,283</u>
Total State Awards			<u>108,283</u>
Total Federal and State Awards			<u>\$ 1,994,650</u>

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**

**D/B/A CONNECTUS HEALTH**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

*JUNE 30, 2019*

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**Note 1—Basis of presentation**

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of the Organization for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") as codified by DHHS at 45 CFR Part 75 and the State of Tennessee. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, operations and changes in net assets, or cash flows of the Organization.

**Note 2—Summary of significant accounting policies**

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization did not expend any federal or state awards during fiscal year 2019 in the form of noncash assistance.

**Note 3—Indirect cost rate**

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

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

*JUNE 30, 2019*

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**BOARD OF DIRECTORS**

Amy Radcliff – President

Brent Taylor

Shana Berkley

Kevin Conard

Ebony Gilbert

Collins de la Cour

Jaime Combs

Yuri Cunza

**MEMBERS OF MANAGEMENT**

Carolina Portis-Jenkins – Co-CEO, Director of On Site Clinics & Employer Health Services

Suzanne Hurley – Co-CEO, Director of Community & Women's Health Services

Stephanie Cavanagh – CFO



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University Community Health Services, Inc., d/b/a Connectus Health, (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2019.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



Nashville, Tennessee  
October 23, 2019

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

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

**Report on Compliance for Each Major Federal Program**

We have audited University Community Health Services, Inc.'s, d/b/a Connectus Health (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2019. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 program for the year ended June 30, 2019.

## 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.



Nashville, Tennessee  
October 23, 2019

**UNIVERSITY COMMUNITY HEALTH SERVICES, INC.**  
**(D/B/A CONNECTUS HEALTH)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*YEAR ENDED JUNE 30, 2019*

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**Section I—Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness identified?

\_\_\_\_\_ yes        X   no

Significant deficiencies identified

\_\_\_\_\_ yes        X   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes        X   no

**Federal Awards**

Internal control over major programs:

Material weakness identified?

\_\_\_\_\_ yes        X   no

Significant deficiencies identified

\_\_\_\_\_ yes        X   none reported

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

Unmodified

Any audit findings disclosed that are required to be  
reported in accordance 2 CFR 200.516(a)?

\_\_\_\_\_ yes        X   no

Identification of major programs for the Organization for the fiscal year ended June 30, 2019 are:

                    CFDA #                      
93.224 and 93.527

Program Name  
Health Center Cluster

Dollar threshold used to distinguish between Type A and  
Type B Programs

\$ 750,000

Auditee qualified as low-risk auditee?

  X   yes      \_\_\_\_\_ no

**Section II—Financial Statement Findings**

None noted.

**Section III—Federal Audit Findings and Questioned Costs**

None noted.

**Section IV—Prior Year Findings**

None noted.