

**Frederiksted Health Care, Inc.**

**Financial Statements,  
Schedule of Expenditures of Federal Awards,  
Internal Control and Compliance  
and Independent Auditor's Reports**

**December 31, 2019**

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**Frederiksted Health Care, Inc.**

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## Independent Auditor's Report

To the Board of Directors  
Frederiksted Health Care, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Frederiksted Health Care, Inc. (the "Center"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 Center'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 Center'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 the Center as of December 31, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 November 5, 2020, on our consideration of the Center'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 the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control over financial reporting and compliance.



New York, New York  
November 5, 2020

Frederiksted Health Care, Inc.

Statement of Financial Position  
December 31, 2019

Assets

Current assets	
Cash	\$ 7,165,944
Patient services receivable, net	5,036,041
340B pharmacy receivable	44,668
DHHS grants receivable	66,114
Other receivable	3,000
	<hr/>
Total current assets	12,315,767
Property and equipment, net	2,255,881
	<hr/>
Total assets	<u>\$ 14,571,648</u>

Liabilities and Net Assets

Current liabilities	
Accounts payable and accrued expenses	\$ 306,798
Accrued compensation	801,004
Refundable advances	399,871
	<hr/>
Total liabilities	1,507,673
Commitments and contingencies	
Net assets without donor restrictions	13,063,975
	<hr/>
Total liabilities and net assets	<u>\$ 14,571,648</u>

See Notes to Financial Statements.

Frederiksted Health Care, Inc.

Statement of Activities and Change in Net Assets  
Year Ended December 31, 2019

Revenue without donor restrictions	
Patient services revenue (net of contractual allowances and discounts)	\$ 10,846,688
Provision for bad debts	<u>(454,261)</u>
Net patient services revenue	10,392,427
340B pharmacy	2,642,208
DHHS grants	3,110,756
Contract services	2,111,042
In-kind contributions	970,739
Other	<u>150,280</u>
Total revenue without donor restrictions	<u>19,377,452</u>
Expenses	
Salaries and benefits	7,892,000
Other than personnel services	6,685,988
Interest	<u>8,248</u>
Total expenses	<u>14,586,236</u>
Operating income prior to depreciation and amortization	4,791,216
Depreciation and amortization	<u>336,090</u>
Change in net assets without donor restrictions	4,455,126
Net assets, beginning	<u>8,608,849</u>
Net assets, end	<u><u>\$ 13,063,975</u></u>

See Notes to Financial Statements.

**Frederiksted Health Care, Inc.**

**Statement of Functional Expenses  
Year Ended December 31, 2019**

	Program services	General and administrative	Total
Salaries and wages	\$ 5,496,421	\$ 788,344	\$ 6,284,765
Fringe benefits	1,405,628	201,607	1,607,235
Consultant and contractual services	1,878	74,676	76,554
Laboratory	403,283	-	403,283
Professional fees	365,398	365,570	730,968
Consumable supplies	2,619,463	244,878	2,864,341
Occupancy	443,779	110,945	554,724
Repairs and maintenance	86,746	21,686	108,432
Telephone	91,073	13,063	104,136
Travel, conferences and meetings	186,655	26,772	213,427
Printing, postage and publications	18,224	4,556	22,780
Insurance	144,134	36,033	180,167
Donated rent	216,000	54,000	270,000
Interest expense	6,598	1,650	8,248
Pharmacy	870,087	-	870,087
Other	50,842	236,247	287,089
	<u>12,406,209</u>	<u>2,180,027</u>	<u>14,586,236</u>
Subtotal			
Depreciation and amortization	<u>268,872</u>	<u>67,218</u>	<u>336,090</u>
	<u>\$ 12,675,081</u>	<u>\$ 2,247,245</u>	<u>\$ 14,922,326</u>
Total functional expenses			

See Notes to Financial Statements.

**Frederiksted Health Care, Inc.**

**Statement of Cash Flows  
Year Ended December 31, 2019**

Cash flows from operating activities	
Cash received from patient services	\$ 11,090,030
Cash received from 340B pharmacy	2,636,693
Cash received from DHHS grants	3,128,400
Cash received from contract services	2,356,243
Cash received from other	147,280
Cash paid for personnel services	(7,368,549)
Cash paid for other than personnel services	(6,173,831)
Cash paid for interest	(8,248)
	<u>5,808,018</u>
Net cash provided by operating activities	<u>5,808,018</u>
Cash flows from investing activities	
Purchase of property and equipment	(684,460)
	<u>(684,460)</u>
Net cash used in investing activities	<u>(684,460)</u>
Cash flows from financing activities	
Principal payments on mortgage	(311,675)
	<u>(311,675)</u>
Net cash used in financing activities	<u>(311,675)</u>
Net increase in cash	4,811,883
Cash, beginning	<u>2,354,061</u>
Cash, end	<u>\$ 7,165,944</u>
Reconciliation of change in net assets to net cash provided by operating activities	
Change in net assets	\$ 4,455,126
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Provision for bad debts	454,261
Depreciation and amortization	336,090
Changes in operating assets and liabilities	
Patient services receivable	243,342
340B pharmacy receivable	(5,515)
DHHS grants receivable	17,644
Other receivable	(3,000)
Prepaid expenses	71,003
Accounts payable and accrued expenses	(177,965)
Accrued compensation	171,831
Refundable advances	245,201
	<u>5,808,018</u>
Net cash provided by operating activities	<u>\$ 5,808,018</u>
Capital acquisitions included in accounts payable and accrued expenses	<u>\$ 112,137</u>

See Notes to Financial Statements.



## Frederiksted Health Care, Inc.

### Notes to Financial Statements December 31, 2019

#### Note 1 - Organization

Frederiksted Health Care, Inc. (the "Center") is a federally qualified health center operating on the island of St. Croix in the U.S. Virgin Islands. The Center was organized exclusively to be a comprehensive healthcare services provider delivering services to the people of the Western District of St. Croix, U.S. Virgin Islands, with expansion to a satellite site, without regard to race, color, creed, nationality, gender, age, handicap or sexual orientation and without regard to ability to pay.

The Center's operations are funded primarily through contract services revenue from the U.S. Virgin Islands government and grant revenue from the U.S. Department of Health and Human Services (the "DHHS"). The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

#### Note 2 - Significant accounting policies

##### **Basis of presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

##### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **Classification of net assets**

The Center classifies its net assets into two categories, which are described as follows:

*Net assets without donor restrictions* are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Center and an outside party other than a donor or grantor. The Center had net assets without donor restrictions of \$13,063,975 at December 31, 2019.

*Net assets with donor restrictions* are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Center does not have net assets with donor restrictions as of December 31, 2019.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and change in net assets.

##### **Adoption of new accounting pronouncements**

For the year ended December 31, 2019, the Center adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves current accounting guidance to determine when a transaction should be

## Frederiksted Health Care, Inc.

### Notes to Financial Statements December 31, 2019

accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The changes required by the update have been applied on a modified prospective basis to the 2019 financial statements. Due to the adoption of ASU 2018-08, certain transactions previously accounted for as exchange transactions are now accounted for as conditional contributions.

The Center adopted FASB ASU 2016-18, *Statement of Cash Flows - Restricted Cash*. This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash and cash equivalents. Due to this change, amounts described as restricted cash and cash equivalents are now included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

The Center adopted FASB ASU 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance on the classification of eight specific cash flow issues. This ASU did not have a significant effect on the Center's statement of cash flows.

In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which provides for the elective deferrals of the effective dates of Topic 606 and Topic 842 for certain entities. The core principle of Topic 606, which replaces most existing revenue recognition guidance with a five-step framework, is that revenue from contracts with customers is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for goods and services. Upon its adoption, Topic 842 replaces existing lease accounting guidance and requires lessees to recognize right of use assets and corresponding lease liabilities for their leases other than those on their balance sheets for all leases, including those classified as operating, except for short-term leases.

The Center has elected to apply the deferrals provided by ASU 2020-05 and therefore expects to adopt (i) Topic 606 for annual reporting periods beginning after December 15, 2019 on a modified retrospective basis with a cumulative effect transition adjustments to opening net assets as of the beginning of the period that includes initial adoption of the standard; and Topic 842 for fiscal years beginning after December 15, 2021 on a modified retrospective basis with a cumulative effect transition adjustments as of the beginning of the period that includes initial adoption of the standard. The Center is currently evaluating the potential impacts of adopting Topic 606 and Topic 842 on its financial statements.

#### **Cash**

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center's bank deposits exceeded Federal Deposit Insurance Corporation limits at various times during the year ended December 31, 2019.

#### **Patient services, 340B pharmacy receivables and concentration of credit risk**

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amount (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments, or discounts provided to third-party payors.

## **Frederiksted Health Care, Inc.**

### **Notes to Financial Statements December 31, 2019**

340B pharmacy receivables are carried at a net amount determined by the original charge for the prescription, less an estimate made for contractual adjustments or discounts provided to the 340B program participants.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 90 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

#### **Grants and contracts receivable**

Grants and contracts receivable consists of costs under the grant and contract agreements which were incurred prior to year-end for which payment has not been received. Grants and contracts receivable credit risk is limited due to the nature of the grants and contracts. The Center regularly monitors its grants and contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. The Center considers all grants and contracts as collectible.

#### **Property and equipment**

Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 20 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Center capitalizes all purchases of property and equipment in excess of \$5,000.

Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in change in net assets.

According to federal regulations, any property and equipment items obtained through federal funds are subject to a lien by the federal government. Provided that the Center maintains its tax-exempt status and the property and equipment are used for their intended purpose, the Center is not required to reimburse the federal government. If the stated requirements are not met, the Center would be obligated to the federal government in an amount equal to the fair value of the property and equipment.

#### **Impairment of long-lived assets**

The Center reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Center compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset's carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Center does not believe that any material impairment currently exists related to its long-lived assets.

## **Frederiksted Health Care, Inc.**

### **Notes to Financial Statements December 31, 2019**

#### **Patient services revenue**

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments, if applicable, under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Center 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 care deducted to arrive at gross self-pay patient revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue before provision for bad debts.

#### **340B pharmacy**

Pharmacy revenue is generated through the 340B program that the Center operates through its agreement with third parties for the year ended December 31, 2019. Under this program, the Center uses the third parties as its administrative agent for the purpose of managing the pharmacy program. For the year ended December 31, 2019, the Center operated its agreement with two unaffiliated local pharmacies. This program allows the Center to offer discounted medications to eligible patients. The Center recognizes pharmacy revenue as prescriptions are filled.

#### **Charity care and community benefits**

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Community benefit represents the cost of services for Medicaid, Medicare and other public patients for which the Center is not reimbursed.

Based on the cost of patient services, charity care approximates \$720,000 for the year ended December 31, 2019.

#### **Grants and contracts**

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grants and contract awards for the acquisition of long-lived assets are reported as nonoperating revenue without donor restrictions, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

## **Frederiksted Health Care, Inc.**

### **Notes to Financial Statements December 31, 2019**

At December 31, 2019, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of approximately \$4,138,000 that have not been recorded in the accompanying financial statements. These grants and contracts require the Center to provide certain services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

#### **Contributions**

Contributions are recorded as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as revenue without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the statement of activities and change in net assets as net assets released from restriction. Donor-restricted contributions, whose restrictions expire during the same fiscal year, are recognized as revenue without donor restrictions.

#### **Meaningful use incentives**

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of six years and be paid out based on a transitional schedule. Nothing was earned in 2019.

#### **In-kind contributions**

In-kind contributions are recognized in the accompanying financial statements based on their fair value at the date of contribution.

#### **Interest earned on federal funds**

Interest earned on federal funds is recorded as a payable to the United States Public Health Service ("PHS") in compliance with the regulations of the United States Office of Management and Budget.

#### **Functional expenses**

Expenses are charged to program services or general and administrative based on a combination of specific identification and allocation determined by management on an equitable basis. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and full time equivalent.

#### **Performance indicator**

The statement of activities and change in net assets includes change in net assets without donor restrictions as the performance indicator.

#### **Tax status**

The Center was incorporated as a not-for-profit corporation under Title 13, Section 491 of the Virgin Islands Code and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. The Center has no unrecognized

**Frederiksted Health Care, Inc.**

**Notes to Financial Statements  
December 31, 2019**

tax benefits at December 31, 2019. The Center's federal and U.S. Virgin Islands income tax returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Center recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the statement of financial position.

**Subsequent events**

The Center has evaluated subsequent events through November 5, 2020, which is the date the financial statements were available to be issued.

**Note 3 - Availability and liquidity**

The following represents the Center's financial assets at December 31, 2019:

Cash	\$ 7,165,944
Patient services receivable, net	5,036,041
340B pharmacy receivable	44,668
DHHS grants receivable	66,114
Other receivable	<u>3,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 12,315,767</u>

On a regular basis, the Center monitors the availability of resources required to meet its operating needs and other contractual commitments. For the purposes of analyzing resources available to meet general expenditures over a 12-month period, the Center considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support these activities to be general expenditures.

In addition to the aforementioned assets available to meet general expenditures over the next 12 months, the Center operates with a balanced budget, anticipates collecting sufficient revenue to cover general expenditures and has a revolving line of credit in the amount of \$150,000.

**Note 4 - Patient services receivable, net**

Patient services receivable, net consist of the following:

Medicaid	\$ 4,759,416
Medicare	58,708
Other third-party payors	137,520
Self-pay	<u>1,430,167</u>
Subtotal	6,385,811
Less allowance for doubtful accounts	<u>1,349,770</u>
Total	<u>\$ 5,036,041</u>

**Frederiksted Health Care, Inc.**

**Notes to Financial Statements  
December 31, 2019**

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill) the Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates provided by the Center's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts for patient services receivable was 21% of patient services receivable at December 31, 2019. The Center had total direct write-offs of approximately \$105,000 for the year ended December 31, 2019. The Center has not changed its charity care or uninsured discount policies during fiscal year 2019.

**Note 5 - Property and equipment, net**

Property and equipment, net, consists of the following:

Building	\$	769,746
Equipment		2,106,757
Furniture and fixtures		689,773
Leasehold improvements		3,310,103
Land		280,000
Vehicles		231,253
		<hr/>
Subtotal		7,387,632
Less accumulated depreciation and amortization		<u>(5,131,751)</u>
Total	\$	<u>2,255,881</u>

In the event the DHHS grants are terminated, the DHHS reserves the right to have the federal interest in all assets purchased with grant funds transferred to the PHS or third parties.

**Note 6 - Line of credit**

The Center has a revolving line of credit in the amount of \$150,000, which expires on July 27, 2021. The agreement requires interest to be charged on the outstanding balance at the prime rate (4.75% at December 31, 2019) plus 3%. There was no outstanding balance at December 31, 2019.

**Frederiksted Health Care, Inc.**

**Notes to Financial Statements  
December 31, 2019**

**Note 7 - Patient services revenue, net**

For the year ended December 31, 2019, the Center recognized patient services revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the following major payors:

Medicaid	\$ 8,278,804
Medicare	757,161
Other third-party payors	767,605
Self-pay	<u>1,043,118</u>
 Total	 <u><u>\$ 10,846,688</u></u>

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

**Note 8 - DHHS grants**

For the year ended December 31, 2019, the Center received the following grants from the DHHS:

Grant number	Grant period	Total grant	Revenue recognized
6 H80CS00372-17-13	03/01/18 - 02/28/19	\$ 2,977,742	\$ 949,938
6 H80CS00372-18-13	03/01/19 - 02/29/20	2,686,211	1,430,559
5 H76HA17151-10-00	01/01/19 - 12/31/19	219,220	219,220
5 NU65PS004901-04-00	07/01/18 - 06/30/19	496,570	313,597
5 NU65PS004901-05-00	07/01/19 - 06/30/20	496,570	170,768
6 C13CS31958-01-07	09/01/18 - 08/31/20	674,800	<u>26,674</u>
			 <u><u>\$ 3,110,756</u></u>

**Note 9 - Contract services revenue**

For the year ended December 31, 2019, contract services and other grants consist of the following:

U.S. Virgin Islands Government	\$ 2,008,742
Altisource Asset Management Corporation - Homeless grant	60,000
Other	<u>42,300</u>
 Total	 <u><u>\$ 2,111,042</u></u>



**Frederiksted Health Care, Inc.**

**Notes to Financial Statements  
December 31, 2019**

**Note 10 - In-kind contributions**

The Center occupies a building rent free. Management uses an estimated market rate per square foot to determine the fair rental value of the space. The Center also receives donated vaccines from the U.S. Virgin Islands Department of Health (the "USVIDOH") Vaccines for Children program, which are recorded at fair value as determined by the USVIDOH. The Center also receives donated provider services, which are recorded at fair value based on the service provided. In addition, the Center receives donated supplies from Direct Relief and donated equipment from various donors, which are all recorded at fair value. The following is a detailed breakdown of in-kind contributions for the year ended December 31, 2019:

Donated rent	\$	270,000
Donated vaccines		278,469
In-kind salaries		351,619
Donated supplies		<u>70,651</u>
Total	\$	<u>970,739</u>

**Note 11 - Employees' retirement system**

In 2014, the Center adopted a 403(b) retirement plan covering substantially all full-time employees who meet certain eligibility requirements. The Center matches employees' contributions at a maximum of 6% of employees' salary. The total cost of the plan related to Center employees for the year ended December 31, 2019 was \$141,135.

The Center participates in the Employees' Retirement System of the U.S. Virgin Islands government (the "System"). Any person who was employed at the Center before 2014 was allowed to become a member as a condition of employment, provided such person is under age 55 on the date of employment. The Center and the members make contributions to the System. Contributions are set by statute. The Center is required to contribute 20.5% of the members' annual salary, up to \$65,000, and the members are required to contribute 11% or 11.5% of their annual salary, depending on the year they began employment. The total cost of the plan related to Center employees for the year ended December 31, 2019 was \$173,107.

**Note 12 - Commitments and contingencies**

The Center has contracted with various funding agencies to perform certain healthcare services, and receives Medicaid and Medicare revenue from the federal and U.S. Virgin Islands governments. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by the federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for reimbursing the agencies for the amounts in question.

The Center maintains its medical malpractice coverage under the Self-Insurance Retention Program provided by the Government of the Virgin Islands, Department of Health, pursuant to the provisions of Title 27 of the Virgin Islands Code Section 166e. The Self-Insurance Retention Program provides professional liability insurance to eligible healthcare providers licensed under the laws of the U.S. Virgin Islands. The Center maintains gap insurance for activity outside of the scope of the Self-Insurance Retention Program coverage. The total cost incurred to maintain medical malpractice insurance coverage for the year ended December 31, 2019 was \$105,566.

**Frederiksted Health Care, Inc.**

**Notes to Financial Statements  
December 31, 2019**

The healthcare industry is subject to voluminous and complex laws and regulations of federal, U.S. Virgin Islands and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions.

In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amounts in question.

In September 2009, the Center entered into a 40-year conditional lease agreement with the U.S. Virgin Islands government for a base rent of \$1 to be paid annually. For the year ended December 31, 2019, donated rent amounted to \$270,000 and is included in both revenue and expenses in the statement of activities and change in net assets.

The Center is involved in claims and legal action in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Center or the results of its operations or cash flows.

The Center leases two facilities. Rent expense for the year ended December 31, 2019 was \$97,061. The facilities are under noncancelable operating leases, expiring on May 31, 2022 and February 28, 2023, requiring future minimum payments of approximately \$35,000 and \$56,000 per year, respectively.

**Note 13 - Subsequent events**

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced in China. The spread of this virus globally in early 2020 has caused business disruption domestically in the United States, the area in which the Center primarily operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while the Center expects this matter to negatively impact the Center's financial condition, results of operations, or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

On May 5, 2020, the Center obtained a \$1,231,700 loan through the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP"), with an interest of 1%. The PPP is a loan designated to provide a direct incentive for small businesses to keep their workers on the payroll. Under the PPP, SBA will forgive loans if certain conditions are met by the debtor. If the borrower does not apply for loan forgiveness within 10 months after the last day of the covered period, or if SBA determines that the loan is not eligible for forgiveness (in whole or in part), the PPP loan is no longer deferred and the borrower must begin paying principal and interest.

## **Supplementary Information**

**Frederiksted Health Care, Inc.**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2019**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Direct programs:				
Health Center Program Cluster:				
Health Center Program	93.224	N/A	\$ -	\$ 548,987
Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	<u>1,858,184</u>
Subtotal Health Center Program Cluster			-	2,407,171
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	219,220
Comprehensive High-Impact HIV Prevention Projects for Community-Based Organizations	93.939	N/A	-	484,365
Passed through the Government of the Virgin Islands				
Department of Health:				
Immunization Cooperative Agreements	93.268	N/A	-	<u>278,469</u>
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 3,389,225</u>

See Notes to Schedule of Expenditures of Federal Awards.

**Frederiksted Health Care, Inc.**

**Notes to Schedule of Expenditures of Federal Awards  
December 31, 2019**

**Note 1 - Basis of presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Frederiksted Health Care, Inc. (the "Center") under programs of the federal government for the year ended December 31, 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"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, change in net assets, or cash flows of the Center.

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

Expenditures reported on the 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 Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 - Donated and nonmonetary assistance**

Donated and nonmonetary assistance is reported in the Schedule at the fair value of the vaccinations received. The total federal share of vaccinations distributed by the Center amounted to \$278,469 and is included in the statement of activities and change in net assets. This amount is included in the Schedule.

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

To the Board of Directors  
Frederiksted Health Care, 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 Frederiksted Health Care, Inc. (the "Center"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and change 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 November 5, 2020.

*Internal Control over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Center'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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 entity'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 Center'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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CohnReznick LLP*

New York, New York  
November 5, 2020

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

To the Board of Directors  
Frederiksted Health Care, Inc.

*Report on Compliance for Each Major Federal Program*

We have audited Frederiksted Health Care, Inc.'s (the "Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2019. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Center'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 Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

*Opinion on Each Major Federal Program*

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.



### *Report on Internal Control over Compliance*

Management of the Center 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 Center'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 Center'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 a 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.



New York, New York  
November 5, 2020

Frederiksted Health Care, Inc.

Schedule of Findings and Questioned Costs  
December 31, 2019

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

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major federal programs:

CFDA Number(s)

Name of Federal Program

93.224  
93.527

U.S. Department of Health and Human Services:  
Health Center Program Cluster:  
Health Center Program  
Grants for New and Expanded Services under the Health Center Program

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee?  yes  no

**Frederiksted Health Care, Inc.**

**Schedule of Findings and Questioned Costs  
December 31, 2019**

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None



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