

Frederiksted Health Care, Inc.

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

December 31, 2014

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, 2014, and the related statements of activities and changes 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, 2014, and the changes 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 the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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 September 24, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



New York, New York
September 24, 2015

Frederiksted Health Care, Inc.

Statement of Financial Position
December 31, 2014

Assets

Current assets:

Cash	\$ 142,819
Patient services receivable, net	824,357
340B pharmacy receivable	61,925
DHHS grants and contracts receivable	122,588
Total current assets	<u>1,151,689</u>

Property and equipment, net	<u>2,189,480</u>
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Total assets	<u>\$ 3,341,169</u>
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Liabilities and Unrestricted Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$ 247,908
Accrued compensation	369,751
Current maturities of mortgage payable	31,300
Deferred income	
Total current liabilities	<u>648,959</u>

Mortgage payable, less current maturities	<u>505,575</u>
Total liabilities	<u>1,154,534</u>

Commitments and contingencies

Unrestricted net assets	<u>2,186,635</u>
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Total liabilities and unrestricted net assets	<u>\$ 3,341,169</u>
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See Notes to Financial Statements.

Frederiksted Health Care, Inc.

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2014**

Unrestricted revenue:	
Patient services revenue (net of contractual allowances and discounts)	\$ 3,024,122
Provision for bad debts	<u>(399,031)</u>
Net patient service revenue less provision for bad debts	2,625,091
340B pharmacy	738,867
DHHS grants	1,478,177
Contract services	2,227,758
Donated rent	240,000
Donated vaccines	146,247
Other	<u>138,377</u>
Total unrestricted revenue	<u>7,594,517</u>
Expenses:	
Salaries and benefits	4,313,274
Other than personnel services	3,076,831
Interest	<u>44,642</u>
Total expenses	<u>7,434,747</u>
Operating income prior to depreciation and amortization	159,770
Depreciation and amortization	<u>714,453</u>
Decrease in unrestricted net assets	(554,683)
Unrestricted net assets, beginning of year	<u>2,741,318</u>
Unrestricted net assets, end of year	<u><u>\$ 2,186,635</u></u>

See Notes to Financial Statements.

Frederiksted Health Care, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2014**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 2,364,462	\$ 741,767	\$ 3,106,229
Fringe benefits	918,803	288,242	1,207,045
Consultant and contractual services	35,518	53,121	88,639
Laboratory	340,490		340,490
Professional fees	324,174	196,866	521,040
Consumable supplies	727,058	125,825	852,883
Occupancy	290,181	72,545	362,726
Repairs and maintenance	52,144	13,036	65,180
Equipment rental	5,450	1,363	6,813
Telephone	56,780	17,813	74,593
Travel, conferences and meetings	98,417	30,875	129,292
Printing, postage and publications	5,898	1,474	7,372
Insurance	46,553	11,638	58,191
Donated rent	192,000	48,000	240,000
Interest expense	35,714	8,928	44,642
Pharmacy	259,869		259,869
Other	39,852	29,891	69,743
	<u>5,793,363</u>	<u>1,641,384</u>	<u>7,434,747</u>
Depreciation and amortization	<u>571,562</u>	<u>142,891</u>	<u>714,453</u>
Total functional expenses	<u>\$ 6,364,925</u>	<u>\$ 1,784,275</u>	<u>\$ 8,149,200</u>

See Notes to Financial Statements.

Frederiksted Health Care, Inc.

**Statement of Cash Flows
Year Ended December 31, 2014**

Cash flows from operating activities:	
Cash received from patient services	\$ 2,648,504
Cash received from 340B pharmacy	676,942
Cash received from DHHS grants	1,510,245
Cash received from contract services	2,151,144
Cash received from other	138,377
Cash paid for personnel services	(4,293,417)
Cash paid for other than personnel services	(2,850,859)
Cash paid for interest	(44,642)
Net cash used in operating activities	<u>(63,706)</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(90,349)</u>
Net cash used in investing activities	<u>(90,349)</u>
Cash flows from financing activities:	
Principal payments on mortgage	<u>(81,300)</u>
Net cash used in financing activities	<u>(81,300)</u>
Net decrease in cash	(235,355)
Cash, beginning of year	<u>378,174</u>
Cash, end of year	<u>\$ 142,819</u>
Reconciliation of decrease in unrestricted net assets to net cash used in operating activities:	
Decrease in unrestricted net assets	\$ (554,683)
Adjustments to reconcile decrease in unrestricted net assets to net cash used in operating activities:	
Provision for bad debts	399,031
Depreciation and amortization	714,453
Changes in operating assets and liabilities:	
Patient services receivable	(375,618)
340B pharmacy receivable	(61,925)
DHHS grants and contracts receivable	(44,546)
Accounts payable and accrued expenses	(160,275)
Accrued compensation	19,857
Net cash used in operating activities	<u>\$ (63,706)</u>

See Notes to Financial Statements.

Frederiksted Health Care, Inc.

Notes to Financial Statements December 31, 2014

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 - Summary of 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 three categories, which are described as follows:

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Center and are not subject to donor-imposed stipulations. The Center had an unrestricted net assets balance of \$2,186,635 at December 31, 2014.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements. There were no temporarily restricted net assets at December 31, 2014.

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Center. There were no permanently restricted net assets at December 31, 2014.

Frederiksted Health Care, Inc.

Notes to Financial Statements December 31, 2014

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. At December 31, 2014, the Center's cash balance exceeds Federally-insured limits by \$125,654.

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.

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.

Frederiksted Health Care, Inc.

Notes to Financial Statements December 31, 2014

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 changes 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.

Patient services and 340B pharmacy 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.

Pharmacy revenue is generated through the 340B program that the Center operates through its agreement with a third party for the year ended December 31, 2014. Under this program, the Center uses the third party as its administrative agent for the purpose of managing the pharmacy program. For the year ended December 31, 2014, the Center operated its agreement with one unaffiliated local pharmacy. This program allows the

Frederiksted Health Care, Inc.

Notes to Financial Statements December 31, 2014

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 \$1,230,000 and community benefit approximates \$3,007,000 for the year ended December 31, 2014.

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 unrestricted nonoperating revenue, 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.

At December 31, 2014, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$1,925,961 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 either unrestricted, when they are received with no donor stipulations, or as temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statement of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions, whose restrictions expire during the same

Frederiksted Health Care, Inc.

Notes to Financial Statements December 31, 2014

fiscal year, are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor. For the year ended December 31, 2014, there were no restricted or conditional contributions.

Donated rent

The Center records donated rent at fair value based on the space provided. During 2014, the Center received donated space of \$240,000, which is recorded in the statement of activities and changes in net assets as both revenue and expense.

Donated vaccines

The Center records donated items at fair value at date of donation. During 2014, the Center received \$146,247 of vaccines, which are recorded in the statement of activities and changes in net assets as both revenue and expense.

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 by management.

Performance indicator

The statement of activities and changes in net assets includes decrease in unrestricted net assets 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 tax benefits at December 31, 2014. The Center's Federal and U.S. Virgin Islands income tax returns prior to fiscal year 2011 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 September 24, 2015, which is the date the financial statements were available to be issued.

Frederiksted Health Care, Inc.

**Notes to Financial Statements
December 31, 2014**

Note 3 - Patient services receivable, net

Patient services receivable, net consist of the following:

Medicaid	\$ 680,999
Medicare	37,953
Other third-party payors	76,715
Self-pay	<u>717,256</u>
	1,512,923
Less allowance for doubtful accounts	<u>(688,566)</u>
Total	<u>\$ 824,357</u>

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 46 percent of patient services receivable at December 31, 2014. The Center had total direct write-offs of approximately \$599,000 for the year ended December 31, 2014. The Center has not changed its charity care or uninsured discount policies during fiscal year 2014.

Frederiksted Health Care, Inc.

**Notes to Financial Statements
December 31, 2014**

Note 4 - Property and equipment, net

Property and equipment, net, consists of the following:

Building	\$ 769,746
Equipment	1,249,422
Furniture and fixtures	189,773
Leasehold improvements	2,840,803
Vehicles	<u>64,588</u>
	5,114,332
Less accumulated depreciation and amortization	<u>(2,924,852)</u>
Total	<u>\$ 2,189,480</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 5 - Line of credit

The Center has a revolving line of credit in the amount of \$150,000, which expires on July 27, 2016. The agreement requires interest to be charged on the outstanding balance at the prime rate (3.25% at December 31, 2014) plus 3%. There was no outstanding balance at December 31, 2014.

Note 6 - Mortgage payable

On August 2, 2013, the Center entered into a mortgage payable with a face amount of \$626,000 to purchase the property located at Estate La Grande Princesse in St. Croix, U.S. Virgin Islands. The loan requires 240 monthly installments of principal payments in the amount of \$2,608 and bears interest at a rate per annum equal to 2.75% above the prime rate (3.25% at December 31, 2014). The note matures on September 1, 2033 and is secured by the Center's personal property.

	\$ 536,875
Less current portion	<u>(31,300)</u>
Long-term portion	<u>\$ 505,575</u>

Frederiksted Health Care, Inc.

**Notes to Financial Statements
December 31, 2014**

Principal payment requirements on the above obligation in each of the five years subsequent to December 31, 2014 and thereafter are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2015	\$ 31,300
2016	31,300
2017	31,300
2018	31,300
2019	31,300
Thereafter	<u>380,375</u>
Total	<u>\$ 536,875</u>

The Center is required to comply with covenants under its long-term debt.

Note 7 - Patient services revenue, net

For the year ended December 31, 2014, the Center recognized patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the following major payors:

	<u>Net Revenue</u>
Medicaid	\$ 2,136,953
Medicare	189,612
Other third-party payors	459,350
Self-pay	<u>238,207</u>
Total	<u>\$ 3,024,122</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.

Frederiksted Health Care, Inc.

**Notes to Financial Statements
December 31, 2014**

Note 8 - DHHS grants

For the year ended December 31, 2014, the Center received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	Revenue Recognized
6H80CS00372-12-08	03/01/13 - 02/28/14	\$ 1,226,725	\$ 272,684
6H80CS00372-13-08	03/01/14 - 02/28/15	1,381,783	973,930
6H76HA17151-05-01	01/01/14 - 12/31/14	231,563	<u>231,563</u>
Total			<u>\$ 1,478,177</u>

Note 9 - Contract service revenue

For the year ended December 31, 2014, contract services and other grants consist of the following:

U.S. Virgin Islands Government	\$ 1,960,257
Healthy Families America	<u>267,501</u>
Total	<u>\$ 2,227,758</u>

Note 10 - Employees' retirement system

The Center participates in the Employees' Retirement System of the U.S. Virgin Islands government (the "System"). Any person who is employed at the Center shall become a member as a condition of employment, provided such person is under age 55 on the date of employment. Contributions by members begin after completing one month of service. The Center and the members make contributions to the System. Contributions are set by statute. The Center is required to contribute 17.5% of the members' annual salary, up to \$65,000, and the members are required to contribute 8% of their annual salary. The total cost of the plan related to Center employees for the year ended December 31, 2014 was \$404,886.

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 the employees' salary. The total cost of the plan related to Center employees for the year ended December 31, 2014 was \$4,861.

Note 11 - 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.

Frederiksted Health Care, Inc.

**Notes to Financial Statements
December 31, 2014**

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, 2014 was \$16,397.

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, 2014, donated rent amounted to \$240,000 and is included in both revenue and expenses in the statement of activities and changes 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 one facility. Rent expense for the year ended December 31, 2014 was \$39,900. The facility is under a noncancelable operating lease, expiring on May 31, 2017, requiring future minimum payments in the amount of \$30,000 per year.

Frederiksted Health Care, Inc.

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Health Center Cluster:			
Consolidated Health Centers	93.224	N/A	\$ 496,930
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>749,684</u>
Subtotal Health Center Cluster			1,246,614
 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	 93.918	 N/A	 <u>231,563</u>
Passed through Government of the Virgin Islands			
Department of Health:			
Affordable Care Act (ACA) Grants for Maternal, Infant, and Early Childhood Visiting Program	93.505	N/A	267,501
Immunization Cooperative Agreements	93.268	N/A	<u>146,247</u>
 Total Federal awards			 <u><u>\$ 1,891,925</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

Frederiksted Health Care, Inc.

**Notes to Schedule of Expenditures of Federal Awards
December 31, 2014**

Note 1 - General information

The accompanying schedule of expenditures of Federal awards (the "Schedule") presents the activities in all Federal awards of Frederiksted Health Care, Inc. (the "Center"). All financial assistance received directly from the Federal agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations is included on the Schedule.

Note 2 - Basis of accounting

The accompanying Schedule is presented using the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

Note 3 - Relationship to basic financial statements

Federal expenditures are reported on the statement of functional expenses as program services. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations or agency-matching or in-kind contributions which are not included in the Schedule.

Note 4 - Subrecipients

Of the Federal expenditures presented in this Schedule, the Center provided no Federal awards to subrecipients for the year ended December 31, 2014.

Note 5 - 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 \$146,247. The 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, 2014, and the related statements of activities 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 September 24, 2015.

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.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

New York, New York
September 24, 2015

Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance Required by OMB Circular A-133

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 *Office of Management and Budget ("OMB") Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2014.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



New York, New York
September 24, 2015

Frederiksted Health Care, Inc.

Schedule of Findings and Questioned Costs
December 31, 2014

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: 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 programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
93.224	U.S. Department of Health and Human Services:
93.527	Health Center Cluster: Consolidated Health Centers Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program

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

Auditee qualified as low-risk auditee? yes no

Frederiksted Health Care, Inc.

**Schedule of Findings and Questioned Costs
December 31, 2014**

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Frederiksted Health Care, Inc.
Schedule of Prior Year's Findings
Year Ended December 31, 2014

None noted.