

OPTIMUS HEALTH CARE, INC.

**Consolidated Financial Statements
and Supplementary Information
with Independent Auditor's Report**

June 30, 2014 and 2013



GUILMARTIN • DIPIRO • SOKOLOWSKI LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Optimus Health Care, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Optimus Health Care, Inc. (a nonprofit organization) and affiliated entity, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 judgement, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Optimus Health Care, Inc. and affiliated entity as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and state financial assistance as required by the Office of Policy and Management Compliance Supplement to the State Single Audit Act are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of Optimus Health Care, Inc.'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 Optimus Health Care, Inc.'s internal control over financial reporting and compliance.

Guilfoyle, DiPiro & Sokolowski LLC

Middletown, Connecticut
October 27, 2014

INDEPENDENT AUDITOR'S REPORT

OPTIMUS HEALTH CARE, INC.

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FINANCIAL STATEMENTS

OPTIMUS HEALTH CARE, INC.

Consolidated Statements of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,414,934	\$ 1,288,432
Investments	455,298	982,872
Patient accounts receivable, net	3,455,123	3,183,030
Contracts and grants accounts receivable	470,811	631,459
Other receivable	-	26,847
Prepaid expenses and other current assets	<u>104,758</u>	<u>103,448</u>
Total current assets	<u>5,900,924</u>	<u>6,216,088</u>
Non-current assets:		
Property and equipment, net	12,862,199	13,331,620
Other assets	<u>83,333</u>	<u>83,333</u>
Total non-current assets	<u>12,945,532</u>	<u>13,414,953</u>
Total assets	<u>\$ 18,846,456</u>	<u>\$ 19,631,041</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Line of credit	\$ 441,156	\$ 450,000
Accounts payable	1,663,206	2,087,934
Accrued expenses	3,007,726	3,194,014
Deferred revenue	110,376	172,673
Current portion of long-term debt	<u>144,875</u>	<u>138,077</u>
Total current liabilities	<u>5,367,339</u>	<u>6,042,698</u>
Long-term liabilities:		
Mortgage note payable, less current portion	<u>2,710,725</u>	<u>2,892,001</u>
Total liabilities	<u>8,078,064</u>	<u>8,934,699</u>
Net assets:		
Unrestricted	<u>10,768,392</u>	<u>10,696,342</u>
Total net assets	<u>10,768,392</u>	<u>10,696,342</u>
Total liabilities and net assets	<u>\$ 18,846,456</u>	<u>\$ 19,631,041</u>

See accompanying notes and independent auditor's report.

OPTIMUS HEALTH CARE, INC.

Consolidated Statements of Operations and Changes in Net Assets

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operations:		
Revenues:		
Patient fees	\$ 28,549,302	\$ 28,176,584
Grant income	9,835,722	11,276,147
Donated vaccines and food	7,201,925	9,869,611
Contracted services	2,577,929	2,577,929
Other income	313,389	237,900
Fundraising events	46,514	61,511
Investment income and realized gains	74,011	104,924
Total revenues	<u>48,598,792</u>	<u>52,304,606</u>
Expenses:		
Medical services	26,735,875	28,786,330
Dental services	2,412,357	2,682,389
Behavioral health services	2,263,108	2,085,067
Other general health services	7,531,263	10,293,505
Management and general	9,584,139	9,034,713
Total expenses	<u>48,526,742</u>	<u>52,882,004</u>
Change in unrestricted net assets	72,050	(577,398)
Unrestricted net assets, beginning of year	<u>10,696,342</u>	<u>11,273,740</u>
Unrestricted net assets, end of year	<u>\$ 10,768,392</u>	<u>\$ 10,696,342</u>

See accompanying notes and independent auditor's report.

OPTIMUS HEALTH CARE, INC.

Consolidated Statements of Cash Flows

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>72,050</u>	\$ <u>(577,398)</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	833,497	945,498
Unrealized loss on investments	12,558	11,395
(Increase) decrease in patient accounts receivable, net	(272,093)	140,804
Decrease (increase) in contracts and grants accounts receivable	160,648	(539,587)
Decrease in other receivable	26,847	52,529
(Increase) decrease in prepaid expenses and other current assets	(1,310)	93,889
(Decrease) increase in accounts payable	(424,728)	1,290,188
(Decrease) increase in accrued expenses	(186,288)	706,053
(Decrease) in deferred revenue	(62,297)	(120,766)
Total adjustments	<u>86,834</u>	<u>2,580,003</u>
Net cash provided by operating activities	<u>158,884</u>	<u>2,002,605</u>
Cash flows from investing activities:		
Purchase of property and equipment	(364,075)	(2,684,308)
Purchase of investments	(596,047)	(1,462,700)
Proceeds on sale of investments	<u>1,111,062</u>	<u>1,666,006</u>
Net cash provided by (used in) investing activities	<u>150,940</u>	<u>(2,481,002)</u>
Cash flows from financing activities:		
Payments on line of credit	(8,844)	-
Proceeds from line of credit	-	450,000
Payments on long-term debt	(174,478)	(346,477)
Net cash (used in) provided by financing activities	<u>(183,322)</u>	<u>103,523</u>
Net increase (decrease) in cash and cash equivalents	126,502	(374,874)
Cash and cash equivalents, beginning of year	<u>1,288,432</u>	<u>1,663,306</u>
Cash and cash equivalents, end of year	<u>\$ 1,414,934</u>	<u>\$ 1,288,432</u>

See accompanying notes and independent auditor's report.

OPTIMUS HEALTH CARE, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

Optimus Health Care, Inc.'s mission is to improve the overall health of our communities in Bridgeport, Stamford and Stratford, particularly the medically underserved, by providing preventive, primary care and supplemental health care services along with health education in a culturally sensitive manner regardless of one's ability to pay. Optimus Foundation, Inc. was formed in April 2012 with the intention to fundraise and develop events to support the cause of Optimus Health Care, Inc.

Optimus Health Care, Inc. and Optimus Foundation, Inc. are collectively referred to as Optimus.

Optimus Health Care, Inc. is a mature Federally Qualified Health Care Center primarily funded by Health and Human Services. It is the largest provider of primary health care services in Southwestern Connecticut. With more than a dozen JCAHO accredited, comprehensive community health centers located in Bridgeport, Stamford and Stratford, Optimus provides complete health care services, regardless of race, income and insurance status.

Founded in 1976, Optimus Health Care, Inc. formerly known as "Bridgeport Community Health Center" was founded by a group of civic-minded individuals committed to the development of a health care facility dedicated to the health of their neighborhood and has been accredited by the Joint Commission on Accreditation of Health Care Organizations since 1998. Optimus Health Care, Inc. provides a comprehensive model of primary health care services using a "multi-site model."

Optimus operates over 16 service facilities in Bridgeport, Stamford and Stratford including Homeless Program Soup Kitchen and Homeless Shelter, several Bridgeport Based Health Centers and WIC Program.

Consolidation

The accompanying consolidated financial statements include the accounts of Optimus Health Care, Inc. and Optimus Foundation, Inc., an affiliate organization. Intercompany transactions and balances have been eliminated in consolidation.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting policies as accepted in the United States (referred to as GAAP) and follow the format required by the *Audits of Providers of Health Care Services* issued by the American Institute of Certified Public Accountants.

Change in presentation

Management reviews the format of the financial statements annually and may consolidate or show separately certain items they feel make presentation complete.

Income tax status

The Organization has received exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(a)(vi).

The Organization has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves or related accruals for interest and penalties for uncertain tax positions at June 30, 2014.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2011.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the certain reported amounts. Accordingly actual results could differ from those estimates.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, Optimus considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

OPTIMUS HEALTH CARE, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Investments

Investments in marketable equity securities and all debt securities are carried at fair value in the consolidated statements of financial position. Realized and unrealized gains and losses on these investments are reported in the consolidated statements of operations and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law.

Allowance for bad debts

Patient accounts receivable are stated net of an allowance for doubtful accounts. Optimus estimates the allowance based on the number of days outstanding. For fiscal year 2013, Optimus reevaluated the number of days outstanding and changed the calculation to better estimate its allowance. This change resulted in an increase to income for the year ended June 30, 2013 in the amount of \$292,898. The allowance for doubtful accounts for patient accounts receivable was \$5,681,744 and \$2,828,822 at June 30, 2014 and 2013, respectively.

The bad debt expense for the years ended June 30, 2014 and 2013 was \$2,408,672 and \$2,025,147, respectively.

Property and equipment

Optimus follows the practice of capitalizing all property and equipment with a cost exceeding \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a range in lives from 3 to 35 years. There are no planned major maintenance activities.

If a grant is completed or terminated, assets purchased with grant funds must be returned to the funding agency if requested.

Charitable services

Optimus provides care to all patients, regardless of their ability to pay or the availability of third-party reimbursement. Charges for services are computed using a sliding-scale fee schedule based on patient income and family size. Only the amount charged per the sliding-scale fee is recognized as patient services revenue.

Net assets - unrestricted

All of Optimus' unrestricted net assets are for general use by the corporation.

NOTE 2

CONCENTRATIONS

The Organization maintains their cash balances with various financial institutions. Such deposits at times have exceeded federal depository limits; however, the Organization believes its cash deposits are not subject to significant credit risk.

A substantial portion of the Organization's revenue is derived from grant contracts. Because the grants are evidenced by signed contracts with government and other agencies, management believes there is nominal credit risk associated with any outstanding grants receivable.

NOTE 3

REVENUES

Net patient service revenue

Optimus has agreements with third-party payers that provide for payments to Optimus at amounts different from its established rates. Payment arrangements under these agreements include prospectively determined rates per reimbursement costs, discounted charges and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payers and others for services rendered.

Optimus has agreements that provide payments as described below.

Revenue from contracting agencies

Optimus participates as a provider of health care services to several Managed Care Organizations (MCO's). Reimbursement for covered services is based on tentative payment rates. Provisions for estimated reimbursement adjustments are reported in the financial statements in the period that the services are rendered.

Revenue from the Medicare and Medicaid programs accounted for approximately 46% and 42% of the Organization's revenue for the fiscal years ended June 30, 2014 and 2013, respectively. Laws and regulations governing these programs are extremely complex and subject to interpretation. The Medicaid rates are based upon a retrospective cost analysis submitted to the State of Connecticut Department of Social Services. Medicare rates are set based upon cost reports and adjusted for various factors as defined in the contracts. Proposed adjustment to the rates is subject to negotiations. During 2014, Optimus received \$1,360,000 from rate adjustments.

OPTIMUS HEALTH CARE, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Grants and contracts

Grants and contracts are agreements in which the grantor or contractor requires expenditures for the performance of specified activities. Optimus records its grant or contract revenue equal to the expenditure of funds in accordance with grant specification. Grant and contract receipts in excess of allowable expenditures are recorded as deferred revenue if the grant extends beyond Optimus' fiscal year and as due to grantor if the grant was completed within the fiscal year.

Contracted services

Optimus and Stamford Hospital have an agreement in which Optimus' employees staff the Subspecialty Clinics. In consideration of the services provided by the Subspecialty Clinics staff, Stamford Hospital agrees to compensate Optimus at the rate of \$214,827 per month. The parties may adjust the monthly fee on a semiannual basis, as necessary to account for any changes. The agreement can be terminated upon occurrence of certain events, including excessive losses on the clinic's operations, as defined in the agreement with Stamford Hospital.

Stamford Hospital is leasing the site from an unrelated third party. Optimus is subleasing the space under the same terms and conditions, except that the lease would be terminated in the event the operating agreement is terminated. The lease commitments in Note 9 include the commitments under this sublease.

Other income

The other income relates to the meaningful use grant and the recovery of revenues. The meaningful use grant is an incentive plan for which health care centers receive incentive dollars for achieving certain phases in implementing electronic medical records. The recovery of revenues relates to changes from previous years that were entered through the system during 2013, a portion of which were written off through contractual allowances and bad debts.

Donated vaccines and WIC

In 2014 and 2013, Optimus received \$7,201,925 and \$9,869,611, respectively in donated vaccines and food to be distributed during the year.

NOTE 4

FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, governs the application of accounting principles generally accepted in the

United States of America that require fair value measurements of Optimus' assets and liabilities. Fair value as defined in ASC 820 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 established a three tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the financial instruments as noted below:

- *Level 1* - quoted prices in active markets for identical inputs.
- *Level 2* - other significant observable inputs.
- *Level 3* - significant unobservable inputs (including Optimus' own assumptions in determining fair value).

Optimus' additional financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities. These instruments approximate their fair values as of June 30, 2014 and 2013 due to their short-term nature.

NOTE 5

INVESTMENTS

All investments are available for sale and transfer to support Organization requirements and presented on the financial statements at fair market value.

Generally accepted accounting principles have determined that short-term and long-term investments traded on the open market (individual stocks, ETF's and mutual funds) are determined by reference to quoted prices of identical instruments generated by active market transactions and are considered to be level 1 transactions.

	<u>Quoted Prices on Active Markets</u>	
	<u>2014</u>	<u>2013</u>
Common stock	\$127,370	\$202,410
Equity funds - domestic	27,959	68,423
Corporate bonds	-	100,563
Equity funds - international	70,021	144,975
ADRS	11,859	14,898
Mutual funds	<u>218,089</u>	<u>451,603</u>
Total	<u>\$455,298</u>	<u>\$982,872</u>

OPTIMUS HEALTH CARE, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Investments, continued

Investment expenses, reported net of investment income were \$2,786 and \$4,712 for the years ended June 30, 2014 and 2013, respectively.

NOTE 6

PROPERTY AND EQUIPMENT

Components of property and equipment are as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 959,019	\$ 959,019
Buildings and improvements	16,082,251	13,722,376
Furniture, fixtures and equipment	350,374	1,048,259
Computer equipment	500,822	1,526,506
Construction in progress	<u>143,178</u>	<u>2,324,128</u>
	18,035,644	19,580,288
Less: accumulated depreciation and amortization	<u>(5,173,445)</u>	<u>(6,248,668)</u>
Total	<u>\$12,862,199</u>	<u>\$13,331,620</u>

The financial statements reflect depreciation expense at June 30, 2014 and 2013 of \$833,497 and \$945,500, respectively.

NOTE 7

DEBT OBLIGATIONS

Debt obligations at June 30 consist of the following:

	<u>2014</u>	<u>2013</u>
First mortgage payable with an interest rate of 4.75% maturing in June 2018, secured by the property located on East Main Street, Bridgeport, Connecticut.	\$1,265,301	\$1,333,858

2014 2013

Mortgage payable with an interest rate of 4.75% maturing in May 2019, secured by the property located on Atlantic Street, Stamford, Connecticut.	\$1,590,299	\$1,696,220
Less: current portion	<u>(144,875)</u>	<u>(138,077)</u>
	<u>\$2,710,725</u>	<u>\$2,892,001</u>

Aggregate maturities of long-term borrowings over the next five years are as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2015	\$ 144,875
2016	151,654
2017	159,476
2018	1,159,539
2019	1,240,056

The terms of certain financing agreements contain, among other provisions, requirements for maintaining defined levels of working capital, net worth, capital expenditures and various financial ratios, including debt to equity.

Interest expense on debt obligations for the years ended June 30, 2014 and 2013 was \$158,874 and \$160,818, respectively.

Line of credit

Optimus maintains a line of credit for \$500,000 and an unused letter of credit for \$36,000. The unused balance is \$8,844.

NOTE 8

DEFINED CONTRIBUTION PLAN

Optimus maintains a 403(b) Defined Contribution Plan. The amount contributed to the plan is a fixed percentage of eligible participants' compensation. Pension expense for this plan was \$490,567 and \$677,836 for the years ended June 30, 2014 and 2013, respectively.

OPTIMUS HEALTH CARE, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

NOTE 9
LEASE OBLIGATIONS

Leased facilities

Optimus conducts some of its operations from leased facilities. Lease commitments include leases which expire at various dates through March 2022 as well as certain leases which are on a month-to-month basis. In this and all other leases, management expects that in the normal course of business leases will be renewed or replaced by other leases. In most of the leases, Optimus is required to pay certain annual operating costs such as maintenance and insurance expenses. Various leases contain restrictions as to the use of the properties and subletting arrangements.

Minimum rental payments due under operating leases for facilities consist of the following:

<u>Year ended June 30:</u>	<u>Amount</u>
2015	\$ 1,509,909
2016	1,370,418
2017	1,416,917
2018	1,462,364
2019	1,411,428
Thereafter	<u>3,893,492</u>
Total	<u>\$11,064,528</u>

Rent expense for the years ended June 30, 2014 and 2013 was \$1,567,870 and \$1,554,529, respectively.

Optimus maintains several leases for medical equipment, telephone systems, copiers and fax machines. The copier and fax machine leases require minimum monthly base payments with adjustments for excess usage.

NOTE 10
MALPRACTICE INSURANCE

As a federally qualified health center, Optimus maintains malpractice insurance under the Federal Tort Claims Act (FTCA). This coverage is applicable to Optimus and their officers, board members, employees and contractors who are physicians, other licensees or certified health care practitioners. The FTCA coverage is on a claims-made basis policy without a monetary cap. As of June 30, 2014, three known malpractice claims have been asserted against the Organization.

NOTE 11
LITIGATION

Optimus is periodically subject to claims and lawsuits that arise in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits will be reported when the outcome can be accurately estimated.

As of June 30, 2014, there were no known pending claims and/or lawsuits against Optimus.

NOTE 12
SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 27, 2014, the date on which the financial statements were available to be issued.

Subsequent to year end, Optimus refinanced its debt obligations. The amount and terms have remained consistent with that specified in Note 7.

SUPPLEMENTARY INFORMATION

OPTIMUS HEALTH CARE, INC.

Notes to the Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

NOTE 1

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Optimus Health Care, Inc. under programs of the Federal Government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Organization it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE 3

INSURANCE

The expenditures reported in the attached schedule of expenditures of federal awards includes expenses incurred for general liability, property and crime insurance costs which are allocable as direct expenditures. At June 30, 2014, Optimus Health Care, Inc. had up to \$2,000,000 in general liability coverage. The schedule also indirectly includes bond or officers' and directors' insurance costs through the administrative allocation for each grant.

OPTIMUS HEALTH CARE, INC.

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2014

<u>Grantor; Pass-Through Grantor; Program</u>	<u>State Grant Program CORE - CT Number</u>	<u>Expenditures</u>
<u>Department of Public Health:</u>		
School Based Health Services	11000-DPH48500-17019	\$ 1,194,845
Community Health and Immigrant Services Program	11000-DPH48500-16060	603,941
AIDS - Healthcare and Support HCCS, Ryan White Part I	11000-DPH48500-12236	72,688
Passed-through Stamford Hospital:		
Medical Home Initiative	11000-DPH48500-12264	10,000
<u>Department of Mental Health and Addiction Services:</u>		
Project Neuva Vida	11000-MHA53000-12157	38,702
Intensive Outpatient Program	11000-MHA53000-12157	221,506
Outpatient Clinic Program	11000-MHA53000-16053	221,797
Case Management	11000-MHA53000-16053	131,304
<u>Department of Children & Families:</u>		
Foster Care Clinic	11000-DCF91110-16008	105,165
<u>Department of Social Services:</u>		
Passed-through Community Health Center Association of Connecticut:		
Medicaid Outreach Program	11000-DSS60000-16020	37,000
Passed-through the City of Bridgeport:		
Healthy Start	11000-DSS60521-41002	<u>58,750</u>
 Total State Financial Assistance		 <u>\$ 2,695,698</u>

See notes to schedule.

OPTIMUS HEALTH CARE, INC.

Notes to the Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2014

The accompanying schedule of expenditures of state financial assistance includes state grant activity of Optimus Health Care, Inc. under programs of the State of Connecticut for the fiscal year ended June 30, 2014. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including medical, dental, behavioral health and wellness programs.

Basis of accounting

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Optimus Health Care, Inc. and affiliated entity conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

FEDERAL SUPPLEMENTARY REPORTS



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

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*

The Board of Directors
Optimus 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 consolidated financial statements of Optimus Health Care, Inc. (a nonprofit organization) and affiliated entity (referred to as Optimus Health Care, Inc.), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Optimus Health Care, Inc.'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Optimus Health Care, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, 2014-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Optimus Health Care, Inc.'s consolidated 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-1.

Optimus Health Care, Inc.'s Response to Findings

Optimus Health Care, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Optimus Health Care, Inc.'s response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Guilmetti, DiPiro + Sokolowski LLC

Middletown, Connecticut
October 27, 2014



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors
Optimus Health Care, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Optimus Health Care, Inc.'s and affiliated entity's (referred to as Optimus Health Care, Inc.) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Optimus Health Care, Inc.'s major federal programs for the year ended June 30, 2014. Optimus Health Care, Inc.'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 Optimus Health Care, Inc.'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 Optimus Health Care, Inc.'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 Optimus Health Care, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Optimus Health Care, Inc. 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 June 30, 2014.

Report on Internal Control Over Compliance

Management of Optimus Health Care, Inc. 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 Optimus Health Care, Inc.'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 Optimus Health Care, Inc.'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Guilmetti, DiPiro + Sokolowski LLC

Middletown, Connecticut
October 27, 2014

OPTIMUS HEALTH CARE, INC.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's opinion 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 opinion 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</u>	<u>Name of Federal Program or Cluster</u>
93.268	<u>U.S. Department of Health & Human Services:</u> Passed-through State of Connecticut Department of Public Health: Vaccines (non-cash assistance)
10.557	<u>U.S. Department of Agriculture:</u> Passed-through State of Connecticut Department of Public Health: Special Supplemental Nutrition Program for Women, Infants and Children (WIC)

Dollar threshold used to distinguish between type A and type B programs: \$412,432

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2014-1:

Criteria:
 Completeness and accuracy of recording gross receivables and related allowance.

Condition:
 The system generated entry recording receivables and related allowance is not correctly calculated at the gross level and cash is not being reconciled between the sub-ledger and the general ledger.

OPTIMUS HEALTH CARE, INC.

Schedule of Findings and Questioned Costs, Continued

Context:

We noted an accumulated difference in the system calculation for gross receivables and in the reconciliation of the detail sub-ledger to the general ledger.

Effect:

Adjustments were required to the financial and billing records.

Cause:

Breakdown in the application of the receivable reconciliation.

Recommendation:

Continued review of the accounts receivable system and the Organization's policies and procedures working either in-house or within Intergy.

Views of Responsible Officials and Planned Corrective Actions:

We are continuing to evaluate our billing procedures.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Yes - see above.

OPTIMUS HEALTH CARE, INC.

Summary Schedule of Prior Audit Findings

For the year ended June 30, 2014

Finding No. 2013-1:

Condition:

The system generated entry recording receivables and related allowance is not correctly calculated at the gross level.

Current Status:

Corrective action is in process. See also Finding No. 2014-1.

Planned Corrective Actions:

We are working on a solution between our billing department, billing vendor and finance department.

Finding No. 2012-1:

Condition:

There were adjustments to prior year to reconcile the detail receivable records.

Additionally, there were instances within the internal controls where the billing procedures were not appropriately followed and thus, adjustments were required.

Current Status:

There are no adjustments to prior year. See also Finding No. 2014-1.

Planned Corrective Actions:

The Organization has recently brought the billing department from an external subcontractor to internally and thus, developing their procedures to ensure there are no breakdowns of controls.

Finding No. 2011-1:

Condition:

Front desk staff is not following proper procedures when entering patient billing information upon registration of a patient. This results in the incorrect guarantor being billed for the services. Also noted was the collection of co-pays/deductibles according to contract is not being done consistently.

The billing department is not following proper procedures to ensure patient balances billed are correct. Thus, patient balances remain uncollected resulting in bad debt write offs.

Procedures for evaluating what should occur between the Organization and the Organization's collection agency should be reviewed more often.

Current Status:

Corrective action is in process. See also Finding No. 2014-1.

Planned Corrective Actions:

The Organization has recently brought the billing department from an external subcontractor to internally and thus, developing their procedures to ensure there are no breakdowns of controls.

STATE SUPPLEMENTARY REPORTS



GUILMARTIN • DIPIRO • SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT**

The Board of Directors
Optimus Health Care, Inc.:

Report on Compliance for Each Major State Program

We have audited Optimus Health Care, Inc.'s and affiliated entity's (referred to as Optimus Health Care, Inc.) compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of Optimus Health Care, Inc.'s major state programs for the year ended June 30, 2014. Optimus Health Care, Inc.'s major state 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 state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Optimus Health Care, Inc.'s major state 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 State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about Optimus Health Care, Inc.'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 state program. However, our audit does not provide a legal determination of Optimus Health Care, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, Optimus Health Care, Inc. 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 state programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Optimus Health Care, Inc. 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 Optimus Health Care, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, 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 Optimus Health Care, Inc.'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 state 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 state 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state 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 State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Guilmozzi, DiPiro + Sokolowski LLC

Middletown, Connecticut
October 27, 2014

OPTIMUS HEALTH CARE, INC.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2014

1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's opinion issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified? x Yes _____ None

Noncompliance material to financial statements noted? _____ Yes x No

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified? x Yes _____ None

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

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? _____ Yes x No

The following schedule reflects the major programs included in the audit:

<u>State Grantor and Program</u>	<u>State CORE - CT Number</u>	<u>Expenditures</u>
Department of Public Health:		
School Based Health Services	11000-DPH48500-17019	\$1,194,845
Department of Mental Health and Addiction Services:		
Outpatient Clinic Program	11000-MHA53000-16053	221,797
Case Management	11000-MHA53000-16053	131,304
Project Neuva Vida	11000-MHA53000-12157	38,702
Intensive Outpatient Program	11000-MHA53000-12157	221,506

Dollar threshold used to distinguish between type A and type B programs: \$200,000

2. FINANCIAL STATEMENT FINDINGS

Finding No. 2014-1:

Criteria:

Completeness and accuracy of recording gross receivables and related allowance.

Condition:

The system generated entry recording receivables and related allowance is not correctly calculated at the gross level and cash is not being reconciled between the sub-ledger and the general ledger.

OPTIMUS HEALTH CARE, INC.

Schedule of Findings and Questioned Costs, Continued

Context:

We noted an accumulated difference in the system calculation for gross receivables and in the reconciliation of the detail sub-ledger to the general ledger.

Effect:

Adjustments were required to the financial and billing records.

Cause:

Breakdown in the application of the receivable reconciliation.

Recommendation:

Continued review of the accounts receivable system and the Organization's policies and procedures working either in-house or with the third party vendor.

Views of Responsible Officials and Planned Corrective Actions:

We are continuing to evaluate our billing procedures.

3. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

None.

OPTIMUS HEALTH CARE, INC.

Summary Schedule of Prior Audit Findings

For the year ended June 30, 2014

Finding No. 2013-1:

Condition:

The system generated entry recording receivables and related allowance is not correctly calculated at the gross level.

Current Status:

Corrective action is in process. See also Finding No. 2014-1.

Planned Corrective Actions:

We are working on a solution between our billing department, billing vendor and finance department.

Finding No. 2012-1:

Condition:

There were adjustments to prior year to reconcile the detail receivable records.

Additionally, there were instances within the internal controls where the billing procedures were not appropriately followed and thus, adjustments were required.

Current Status:

There are no adjustments to prior year. See also Finding No. 2014-1.

Planned Corrective Actions:

The Organization has recently brought the billing department from an external subcontractor to internally and thus, developing their procedures to ensure there are no breakdowns of controls.

Finding No. 2011-1:

Condition:

Front desk staff is not following proper procedures when entering patient billing information upon registration of a patient. This results in the incorrect guarantor being billed for the services. Also noted was the collection of co-pays/deductibles according to contract is not being done consistently.

The billing department is not following proper procedures to ensure patient balances billed are correct. Thus, patient balances remain uncollected resulting in bad debt write offs.

Procedures for evaluating what should occur between the Organization and the Organization's collection agency should be reviewed more often.

Current Status:

Corrective action is in process. See also Finding No. 2014-1.

Planned Corrective Actions:

The Organization has recently brought the billing department from an external subcontractor to internally and thus, developing their procedures to ensure there are no breakdowns of controls.