

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Schneider Regional Medical Center,  
a District of Virgin Islands Government  
Hospitals and Health Facilities Corporation  
St. Thomas, Virgin Islands

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Schneider Regional Medical Center (the District), a district of Virgin Islands Government Hospitals and Health Facilities Corporation, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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.

Board of Directors  
Schneider Regional Medical Center,  
a District of Virgin Islands Government  
Hospitals and Health Facilities Corporation

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2015 and 2014 and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis-of-Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 7 to the financial statements, the District has experienced significant operating losses resulting in a continued decline in liquidity. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

### **Emphasis-of-Matter Regarding a Change in Accounting Principle**

As discussed in Note 12 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* during the year ended September 30, 2015. Our opinion is not modified with respect to that matter.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Board of Directors  
Schneider Regional Medical Center  
a District of Virgin Islands Government  
Hospitals and Health Facilities Corporation

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, and the Government Employees' Retirement System Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions, on pages 30 and 31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with Government Auditing Standards, we have also issued our report dated May 27, 2016, on our consideration of Schneider Regional Medical 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 Schneider Regional Medical Center's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
May 27, 2016

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2015 AND 2014**

## **INTRODUCTION**

This is management's discussion and analysis of the financial performance of Schneider Regional Medical Center (the District), a district of Virgin Islands Government Hospitals and Health Facilities Corporation, and provides an overview of the District's financial activities for the years ended September 30, 2015 and 2014. It should be read in conjunction with the District's financial statements, which begin on page 11.

The District's primary focus is to treat all patients requiring medical assistance. Although the facility's goal is to be able to be financially self-sufficient, via billing and collecting for services rendered, the District continues to encounter financial challenges. The District treats a large number of patients with little or no insurance and a lack of financial ability to pay their medical bills.

## **FINANCIAL HIGHLIGHTS**

Operating revenues were approximately 1% higher than in 2014 and operating expenses were approximately 14% more than in 2014, resulting in an increase of the operating loss of 29% lower than in 2014. Total nonoperating revenues were approximately \$7,922,000 less than in 2014. This variance is primarily due to the decrease in tax appropriations from the USVI Government which was \$26,524,861 and \$35,346,535 in 2015 and 2014 respectively.

Inpatient gross revenues decreased approximately \$74,600 or 0.09% in fiscal year 2015 from the prior year. Outpatient gross revenues increased during 2015 by approximately \$4,467,000 or 8%.

Current assets continue to lag behind current liabilities. Current assets decreased from 64% of current liabilities in 2014 to 32% in 2015.

### **Using This Annual Report**

The District's core financial statements consist of three reports:

- Statements of Net Position
- Statements of Revenue, Expenses, and Changes in Net Position
- Statements of Cash Flows

These reports, together with the related notes to the financial statements, provide the reader with information about the resources, activities, and financial obligations of the District.

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**FINANCIAL HIGHLIGHTS (CONTINUED)**

**Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position**

The District's financial statements begin on page 11. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The statements of net position and the statements of revenues, expenses, and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes therein. You can think of the District's net position (the difference between assets and liabilities) as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall financial health of the District.

**Statement of Cash Flows**

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

**FINANCIAL ANALYSIS OF THE DISTRICT**

**Condensed Statements of Net Position**

The statement of net position reports the District's assets, liabilities, and net position (the difference between assets and liabilities) as of September 30. The statements of net position for the fiscal years ended 2015, 2014, and 2013 are presented side by side (comparatively). This presentation assists the reader to identify significant changes between the years.

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**FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)**

**Condensed Statements of Net Position (Continued)**

	September 30,		
	2015	2014	2013
<b>Assets:</b>			
Current Assets	\$ 12,922,254	\$ 20,467,584	\$ 20,439,358
Noncurrent Cash and Investments	436,188	436,188	823,950
Capital Assets, Net	49,834,080	50,506,560	52,964,021
Other Noncurrent Assets	122,942	157,711	255,521
Deferred Outflows of Resources	11,517,877	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 74,833,341</u></b>	<b><u>\$ 71,568,043</u></b>	<b><u>\$ 74,482,850</u></b>
<b>Liabilities:</b>			
Current Liabilities	\$ 40,401,942	\$ 32,139,138	\$ 33,569,058
Net Pension Liability	112,420,551	-	-
Deferred Inflows of Resources	10,601,191	-	-
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b><u>163,423,684</u></b>	<b><u>32,139,138</u></b>	<b><u>33,569,058</u></b>
<b>Net Position:</b>			
Invested in Capital Assets	49,834,080	50,506,560	52,964,021
Unrestricted	(138,860,611)	(11,513,843)	(12,874,179)
Restricted as to Use	436,188	436,188	823,950
<b>Total Net Position</b>	<b><u>(88,590,343)</u></b>	<b><u>39,428,905</u></b>	<b><u>40,913,792</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b><u>\$ 74,833,341</u></b>	<b><u>\$ 71,568,043</u></b>	<b><u>\$ 74,482,850</u></b>

The most significant asset for the District was capital assets. This asset decreased approximately 1% and 5% during 2015 and 2014, respectively. Although the District added some assets in fiscal years 2015 and 2014, the District's depreciation expense for those years far outweighed the assets added during that same time period.

The second most significant asset for the District was net patient accounts receivable, which is included in current assets. These receivables represent approximately 9% and 16% of the District's total assets at September 30, 2015 and 2014, respectively. Net patient accounts receivable decreased approximately 38% and 3% during the fiscal years ended September 30, 2015 and 2014, respectively. During fiscal year 2015, gross patient receivables decreased by approximately \$3,155,000 from 2014, and the reserves needed against the 2015 receivables increased by approximately \$1,207,000, for an approximate \$4,362,000 decrease in net receivables. During fiscal year 2014, gross patient receivables decreased by approximately \$5,575,000 from 2013, and the reserves needed against the 2014 receivables decreased by approximately \$2,245,000, for an approximate \$3,330,000 decrease in net receivables.

**SCHNEIDER REGIONAL MEDICAL CENTER  
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**FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)**

**Condensed Statements of Net Position (Continued)**

At September 30, 2015, total liabilities and deferred inflows of resources were approximately \$131,285,000 higher than in 2014, the majority of this increase is due to the GASB 68 adoption. At September 30, 2014, total liabilities were approximately \$1,430,000 lower than in 2013.

*Net Position:* Net position totaled (\$88,590,343) and \$39,428,905 as of September 30, 2015 and 2014, respectively.

**Condensed Statements of Revenue, Expenses, and Changes in Net Position**

This report, sometimes referred to as the statement of operations, captures the District's activity for a period of time.

	September 30,		
	2015	2014	2013
Net Patient Service Revenue	\$ 46,331,130	\$ 47,183,922	\$ 51,473,893
Other Operating Revenue	3,030,897	1,906,186	1,919,889
Total Operating Revenues	<u>49,362,027</u>	<u>49,090,108</u>	<u>53,393,782</u>
Salaries and Benefits, Including			
Agency Staffing Fees	48,441,679	45,725,827	44,508,091
Professional Fees, Supplies and Other	44,714,187	36,602,416	37,762,916
Depreciation	3,519,173	3,493,104	4,269,076
Total Operating Expenses	<u>96,675,039</u>	<u>85,821,347</u>	<u>86,540,083</u>
Operating Loss	(47,313,012)	(36,731,239)	(33,146,301)
Nonoperating Revenue and Expenses	<u>27,324,352</u>	<u>35,246,352</u>	<u>21,422,871</u>
Loss Before Contributions for Capital Assets and Forgiveness of Debt	(19,988,660)	(1,484,887)	(11,723,430)
Tax Appropriations from the Government of the U.S. Virgin Islands for Capital	<u>2,479,895</u>	<u>-</u>	<u>-</u>
Decrease in Net Position	(17,508,765)	(1,484,887)	(11,723,430)
Net Position - Beginning of Year, as Restated	<u>(71,081,578)</u>	<u>40,913,792</u>	<u>52,637,222</u>
Net Position - End of Year	<u>\$ (88,590,343)</u>	<u>\$ 39,428,905</u>	<u>\$ 40,913,792</u>

*Operating Revenues:* Total operating revenues were \$49,362,027 and \$49,090,108 for the fiscal years ended September 30, 2015 and 2014, respectively. Patient revenues make up all but 6% and 4% of total operating revenue for the fiscal years ended September 30, 2015 and 2014, respectively.

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**FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)**

**Condensed Statements of Revenue, Expenses, and Changes in Net Position (Continued)**

In fiscal year 2015, net patient revenues decreased by approximately \$853,000, or 2%. Gross patient revenue increased approximately \$4,391,000, or 3%.

In fiscal year 2014, net patient revenues decreased by approximately \$4,290,000, or 8%. Gross patient revenue decreased approximately \$936,000, or 1%.

*Operating Expenses:* Total operating expenses were \$96,675,039 and \$85,821,347 for the fiscal years ended September 30, 2015 and 2014, respectively. Operating expenses as a percentage of operating revenue increased from 175% in fiscal 2014, to 196% in fiscal 2015. Operating expenses increased by approximately \$10,853,693, or 13%, in fiscal year 2015 and approximately \$719,000, or 1%, in fiscal year 2014.

The most significant operating expense in 2015 was salaries, wages, and benefits at \$48,441,679, or 50% of total operating expenses. This expense increased by approximately \$2,716,000, or 6% from 2014. The most significant operating expense in 2014 was salaries, wages, and benefits at \$45,725,827, or 53% of total operating expenses. This expense declined by approximately \$1,218,000, or 3% from 2013.

During fiscal years 2015 and 2014, professional fees, supplies and other expenses increased approximately \$8,112,000, or 21%, and decreased approximately \$1,406,000, or 12%, from prior years, respectively.

*Nonoperating Revenue (Expense):* Total nonoperating revenue, net of expenses, for the current year, decreased approximately \$7,922,000 or 22%, and increased approximately \$13,823,000 or 65%, from the prior years, respectively.

Tax appropriations from GOVI are the most significant nonoperating item for the District. During 2015, this category decreased approximately \$6,341,000, or 18%, which accounts for the decrease in nonoperating revenue (expenses) in 2015. During 2014, this category increased approximately \$14,323,000, or 68%, which accounts for the increase in nonoperating revenue (expenses) in 2014.

**Key Operational Indicators**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Patient Days	22,839	22,212	22,247
Average Daily Census	63	61	61
Inpatient Surgeries	1,204	1,266	1,250
Outpatient Surgeries	1,816	1,742	1,846
Emergency Room Visits	19,151	20,635	19,116
Outpatient Registrations	25,821	26,637	26,431

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**FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)**

**Key Operational Indicators (Continued)**

During fiscal year 2015, patient days increased and inpatient surgeries, outpatient surgeries, emergency room visits and outpatient registrations experienced decreases.

During fiscal year 2014, inpatient surgeries, emergency room visits and outpatient registrations increased and patient days and outpatient surgeries experienced decreases.

**Condensed Statements of Cash Flows**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash Provided By (Used In):			
Operating Activities	\$ (31,085,262)	\$ (29,603,421)	\$ (24,158,920)
Noncapital Financing Activities	32,469,601	31,249,349	21,383,148
Capital and Related Financing Activities	(2,846,693)	(1,330,374)	(146,755)
Investing Activities	<u>14,714</u>	<u>24,874</u>	<u>39,723</u>
(Decrease) Increase in Cash and Cash Equivalents	(1,447,640)	340,428	(2,882,804)
Cash and Cash Equivalents - Beginning of Year	<u>3,105,421</u>	<u>2,764,993</u>	<u>5,647,797</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,657,781</u>	<u>\$ 3,105,421</u>	<u>\$ 2,764,993</u>

*Funds from Operating Activities:* In fiscal year 2015, cash used by operating activities of a negative \$31,085,262 was approximately \$1,482,000 more than the prior fiscal year. The major source of operating funds was receipts from and on behalf of patients (\$49,903,000 in 2015), which was approximately \$2,510,000 less than collected in 2014. Cash paid to suppliers was \$36,394,000 in 2015, which was approximately \$2,024,000 less than in 2014. Cash paid to employees was approximately \$2,932,000 more than in 2014.

In fiscal year 2014, cash provided by or used by operating activities of a negative \$29,603,421 was approximately \$5,445,000 less than the prior fiscal year. The major source of operating funds was receipts from and on behalf of patients (\$52,413,000 in 2014), which was approximately \$1,226,000 more than collected in 2013. Cash paid to suppliers was \$38,418,000 in 2014, which was approximately \$4,878,000 more than in 2013. Cash paid to employees was approximately \$1,927,000 more than in 2013.

*Funds from Noncapital Financing Activities:* Cash received from GOVI is the main source of noncapital cash flow activities. This category increased approximately \$3,700,000 and \$9,307,000 in fiscal years ended September 30, 2015 and 2014, respectively.

*Funds from Capital and Related Financing Activities:* Cash used in the purchase of capital assets increased approximately \$1,516,000 and 1,184,000 in fiscal years ended September 30, 2015 and 2014, respectively.

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**ECONOMIC FACTORS**

The District receives its funding through receipts from and on behalf of patients and from GOVI. Receipts from and on behalf of patients increased 5% from 2014 to 2015, and increased 2% from 2013 to 2014.

The District is one of the facilities in the United States and its territories funded by the Medicare payment system as a TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) facility. TEFRA is CMS's payment system that bases funding on allowable costs for providing treatment to Medicare patients. Under this system, the District had a base year in 1982. Since 1982 the District's costs have continued to escalate as the facility has grown and matured. Except for inflationary increases, the TEFRA base rate has not been recalculated by CMS and is now extremely low, compared to the District's costs. Each year, the District files a TEFRA appeal with Medicare's Medicare Administrative Contractor (MAC) for additional cost-based payments to help compensate for the low base cost structure. Medicare has approved in previous years and sent additional funding. As of the date of this analysis, the District has outstanding Medicare TEFRA appeals.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's board of directors with a general overview of the District's financial position, results of operation, and cash flows. If you have any questions about this report or need additional information, contact the District's Financial Services Division at Schneider Regional Medical Center, 9048 Sugar Estate, St. Thomas, Virgin Islands 00802.

**SCHNEIDER REGIONAL MEDICAL CENTER  
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STATEMENTS OF NET POSITION  
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	2015	2014
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,701,488	\$ 2,669,233
Patient Accounts Receivable, Net	6,989,273	11,351,475
Estimated Amounts Due from Third-Party Payers, Net	390,000	-
Other Receivables, Net	194,644	153,355
Inventories	1,646,849	1,270,497
Due from the Government of the U.S. Virgin Islands	-	5,023,024
Total Current Assets	12,922,254	20,467,584
<b>NONCURRENT CASH AND INVESTMENTS</b>	436,188	436,188
<b>CAPITAL ASSETS, NET</b>	49,834,080	50,506,560
<b>OTHER ASSETS</b>	122,942	157,711
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Related Deferred Outflows	11,517,877	-
Total Assets and Deferred Outflows of Resources	\$ 74,833,341	\$ 71,568,043
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable to Vendors	\$ 29,828,700	\$ 21,167,157
Accrued Payroll and Benefits	3,105,105	3,356,107
Accrued Compensated Absences	2,852,142	2,736,818
Due to the Government of the U.S. Virgin Islands	4,615,995	3,729,056
Estimated Amounts Due to Third-Party Payers, Net	-	400,000
Line of Credit	-	750,000
Total Current Liabilities	40,401,942	32,139,138
<b>NET PENSION LIABILITY</b>	112,420,551	-
Total Liabilities	152,822,493	32,139,138
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Related Deferred Inflows	10,601,191	-
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	49,834,080	50,506,560
Unrestricted	(138,860,611)	(11,513,843)
Restricted as to Use	436,188	436,188
Total Net Position	(88,590,343)	39,428,905
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 74,833,341	\$ 71,568,043

See accompanying Notes to Financial Statements

**SCHNEIDER REGIONAL MEDICAL CENTER  
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STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION  
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	2015	2014
<b>OPERATING REVENUE</b>		
Net Patient Service Revenue	\$ 46,331,130	\$ 47,183,922
Other	3,030,897	1,906,186
Total Operating Revenue	49,362,027	49,090,108
<b>OPERATING EXPENSES</b>		
Salaries and Benefits, Including Agency Staffing Fees	48,441,679	45,725,827
Professional Fees	13,445,471	11,135,272
Supplies and Other	31,268,716	25,467,144
Depreciation	3,519,173	3,493,104
Total Operating Expenses	96,675,039	85,821,347
<b>OPERATING LOSS</b>	(47,313,012)	(36,731,239)
<b>NONOPERATING GAINS</b>		
Tax Appropriations from the Government of the U.S. Virgin Islands	26,524,861	35,346,535
Interest Income	14,714	24,874
Loss on Disposal of Assets	-	(294,731)
Grants and Contributions	784,777	169,674
Net Nonoperating Gains	27,324,352	35,246,352
<b>DEFICIT OF REVENUES AND GAINS OVER EXPENSES AND LOSSES</b>	(19,988,660)	(1,484,887)
Tax Appropriations from the Government of the U.S. Virgin Islands for Capital	2,479,895	-
<b>CHANGE IN NET POSITION</b>	(17,508,765)	(1,484,887)
Net Position - Beginning of Year	39,428,905	40,913,792
Restatement for October 1, 2014, Pension Liability and Related Expense	(110,510,483)	-
Net Position - Beginning of Year, Restated	(71,081,578)	40,913,792
<b>NET POSITION - END OF YEAR</b>	\$ (88,590,343)	\$ 39,428,905

See accompanying Notes to Financial Statements.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third-Party Payers	\$ 49,903,332	\$ 52,413,442
Cash Received from Others	2,989,608	2,047,161
Cash Paid to Suppliers and Others	(36,394,227)	(38,418,336)
Cash Paid to and on Behalf of Employees	(48,577,357)	(45,645,688)
Changes in Pension Related Liabilities	993,382	-
Net Cash Used by Operating Activities	(31,085,262)	(29,603,421)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Tax Appropriations from the Government of the U.S. Virgin Islands	32,434,824	30,329,675
Noncapital Grants and Contributions	784,777	169,674
Net Change in Line of Credit	(750,000)	750,000
Net Cash Provided by Noncapital Financing Activities	32,469,601	31,249,349
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of Capital Assets	(2,846,693)	(1,330,374)
Capital Grants and Contributions	2,479,895	-
Net Cash Used by Capital and Related Financing Activities	(366,798)	(1,330,374)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	14,714	24,874
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	(1,447,640)	340,428
Cash and Cash Equivalents - Beginning of Year	3,105,421	2,764,993
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,657,781	\$ 3,105,421
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>		
Cash and Cash Equivalents in Current Assets	\$ 3,701,488	\$ 2,669,233
Noncurrent Cash and Investments	436,188	436,188
Total	\$ 4,137,676	\$ 3,105,421

See accompanying Notes to Financial Statements.

	<u>2015</u>	<u>2014</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (47,313,012)	\$ (36,731,239)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	3,519,173	3,493,104
Provision for Uncollectible Accounts	22,956,010	23,250,834
Changes in Operating Assets and Liabilities:		
Patient Accounts Receivable	(18,635,097)	(19,780,339)
Estimated Amounts Due to/from Third-Party Payers	(790,000)	1,900,000
Other Assets	34,769	97,810
Inventories	(376,352)	752,493
Deferred Outflows	(11,517,877)	-
Accounts Payable and Accrued Expense, Accrued Payroll, and Estimated Accrued Compensated Absences	8,525,865	(2,586,084)
Deferred Inflows	10,601,191	-
Net Pension Liability	1,910,068	-
	<u>\$ (31,085,262)</u>	<u>\$ (29,603,421)</u>
Net Cash Used by Operating Activities		

**SCHNEIDER REGIONAL MEDICAL CENTER  
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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 AND 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Schneider Regional Medical Center (the District), a district of Virgin Islands Government Hospitals and Health Facilities Corporation, is the operating entity of the District of St. Thomas and St. John in the U.S. Virgin Islands. The District includes the activities of the Governor Roy L. Schneider Hospital (the Hospital), operating on the island of St. Thomas, and those of the Myrah Keating Smith Community Health Center (the Health Center), operating as a division of the Hospital on the island of St. John.

Through legislation passed by the Legislature of the U.S. Virgin Islands in April 1999, the Government of the U.S. Virgin Islands (GOVI) created the Virgin Islands Government Hospitals and Health Facilities Corporation (the Corporation). The Corporation is a component unit of GOVI and has two district governing boards, one for the District of St. Croix and one for the District of St. Thomas-St. John. The board of directors of the Corporation formulates and determines hospital policy and planning for health care delivery at the territorial level. It coordinates hospital policy, planning, and decisions between the two districts to ensure efficient and coordinated hospital policy direction between the districts. The district governing boards formulate and determine Corporation policy and planning for health care delivery for their respective districts consistent with the hospital policy and planning established by the board of directors for the District. In the event of a dispute between the district boards, or between a district board and the board of directors of the Corporation, the respective board of directors of the Corporation shall resolve the dispute by majority vote. The Corporation has delegated to the District those powers necessary to the day-to-day operations of the respective district health facilities, which shall include, but not be limited to, quality assurance, procurement of supplies and equipment, when such procurement is not a part of the territory-wide purchasing for the Corporation, and the financial disbursements to vendors directly supplying the District health facilities.

Schneider Regional Medical Center Foundation (the Foundation) is a legally separate organization for which the District is financially accountable. Accordingly, the Foundation represents a component unit of the District. The financial statements of the Foundation are blended with the District because they are governed by the District board and the Foundation exists for the benefit and support of the District.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus.

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Intergovernmental Support**

The District received approximately 36% and 42% in 2015 and 2014, respectively, of its financial support from the Government of the U.S. Virgin Islands (see Note 6).

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

**Net Patient Service Revenue/Receivables**

Net patient service revenue is reported on the accrual basis in the period in which services are provided at estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare and other third-party payment programs. Net patient revenue includes a provision for uncollectible accounts estimated based upon the age of the patient accounts receivable, prior experience, and any unusual circumstances which affect the collectability of receivables. The District's policy does not require collateral or other security for patient accounts receivable, and the District routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans, or policies.

**Inventories**

Inventories are stated at the lower of cost or market, with cost determined using methods approximating the first-in, first-out method.

**Capital Assets**

Capital assets are recorded at cost. Depreciation is provided using the straight-line method over the following estimated useful lives:

Building, Land Improvements, and Fixed Equipment	4 – 40 Years
Movable Equipment	5 – 20 Years

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (Continued)**

The costs of maintenance and repairs are charged to expense as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining estimated useful lives of the item or the properties. When depreciable capital assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recognized in the period of disposition.

The District periodically reviews property for indicators of potential impairment. If this review indicates that the carrying amount of these assets may not be recoverable, the District estimates the future cash flows expected to result from the operations of the asset and its eventual disposition. If the sum of these future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, a write-down to estimated fair value is recorded.

**Compensated Absences**

Compensated absences are those absences for which employees will be paid, such as vacation. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the District and its employees is accounted for in the period in which such services are rendered or in which such events take place.

**Noncurrent Cash and Investments**

Noncurrent cash and investments includes assets set aside by the board of directors for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes.

**Electronic Health Record Information**

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These acts provided for incentive payments under both the Medicare and Medicaid programs to eligible health care organizations that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the District continuing to meet the escalating meaningful use criteria. Under the program, the District received incentive payments of approximately \$1,090,000 for Medicaid for the year ended September 30, 2015. The revenue has been reported as other operating revenue in the statements of revenues, expenses, and changes in net position.

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

The District, as part of the Corporation, is a public entity of the Government of the U.S. Virgin Islands and is exempt from taxation.

The Foundation is a tax-exempt organization and is not subject to state or federal income taxes, except on unrelated business income as defined under Section 501(c)(3) of the Internal Revenue Code.

**Operating Revenues and Expenses**

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District's principal activity. Nonoperating revenues include tax appropriations, as well as grants and contributions received for purposes other than capital asset acquisition and financing costs. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**Charity Care**

The District provides care without charge to patients who meet certain criteria under its charity care policy, including discounts for certain uninsured patients. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Foregone revenue for charity care provided during 2015 and 2014, measured by the Hospital's standard charges, was \$115,913 and \$754,083, respectively.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the Government of the Virgin Islands (GERS) and additions to/deductions from GERS's fiduciary net position have been determined on the same basis as they are reported by GERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Outflow of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

All deferred outflow of resources result from the implementation of GASB Statement No. 68 (see Note 12).

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Inflow of Resources**

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of pension related deferred inflows.

All deferred inflow of resources result from the implementation of GASB Statement No. 68 (see Note 12).

**Net Position**

Net position of the District is classified in three components as follows:

*Invested in Capital Assets* – Consists of capital assets net of accumulated depreciation and related debt, if any.

*Restricted* – Net position that must be used for a particular purpose, as specified by creditors, grantors, or others external to the District.

*Unrestricted* – Remaining net position that does not meet the definition of invested in capital assets, net of related debt or restricted net position.

**NOTE 2 BANK DEPOSITS AND INVESTMENTS**

The District has implemented the disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* and, accordingly, the District has assessed the custodial credit risk, the concentration of credit, credit risk, and interest rate risk of its cash and investments.

The District had bank balances as follows at September 30:

	<u>2015</u>	<u>2014</u>
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized by Securities Held by Pledging Financial Institutions in the Name of the U.S. Virgin Islands	4,735,998	8,159,781
Total	<u>\$ 4,985,998</u>	<u>\$ 8,409,781</u>
Carrying Amount, Including Amounts Shown as Noncurrent Cash and Investments	<u>\$ 4,137,676</u>	<u>\$ 3,105,421</u>

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**NOTE 2 BANK DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or are collateralized with securities held by the pledging financial institution's trust department or agent, but not in the depositor-government's name. The risk is that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

**Concentration of Credit Risk**

This is the risk associated with the amount of investments the District has with any one issuer that exceed 5% or more of its total investments. At September 30, 2015 and 2014, the District did not hold any investments. Noncurrent cash and investments include only bank deposits.

**Credit Risk and Investment Rate Risk**

GASB Statement No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations, while investment rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District held no debt security investments at September 30, 2015 and 2014.

**NOTE 3 NONCURRENT CASH AND INVESTMENTS**

Noncurrent cash and investments were comprised of the following as of September 30:

	2015	2014
Foundation Assets	\$ 436,188	\$ 436,188

All noncurrent cash and investments are reported as restricted net position of the District as of September 30, 2015 and 2014. Foundation assets are funds held in a depository account in the name of the Foundation and represent funds that were raised for the exclusive benefit of the District.

During the year ended September 30, 2015, the District received a letter of good standing from the Office of the Lieutenant Governor of the U.S. Virgin Islands. Subsequent to year end, the District dissolved the Foundation and transferred the assets out of the Foundation account. The District is in the process of setting up a new Foundation where the transferred assets will be contributed.

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**NOTE 4 NET PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable and the allowances for doubtful accounts at September 30 were as follows:

	2015	2014
Medicare	\$ 4,156,727	\$ 8,096,786
Medicaid	2,689,271	3,113,855
Commercial and Other	6,505,137	8,167,252
Self-Pay	18,112,534	15,241,139
Total	<u>31,463,669</u>	<u>34,619,032</u>
Less: Allowance for Uncollectible Amounts	<u>(24,474,396)</u>	<u>(23,267,557)</u>
Total Patient Accounts Receivable, Net	<u>\$ 6,989,273</u>	<u>\$ 11,351,475</u>

**NOTE 5 NET PATIENT SERVICE REVENUE**

The District has agreements with various third-party payers that provide for payments at amounts different from established rates. The difference between the rates charged and the estimated payments from third-party payers is recorded as a reduction of gross patient charges.

Amounts recorded under certain of these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in the future, although the amount of the change cannot be estimated.

A summary of the payment arrangements with significant third-party payers follows:

*Medicare* – Services are rendered to patients under contractual arrangements with the Medicare program. The Medicare program pays for inpatient and most outpatient services on a reimbursable cost basis. Inpatient costs are subject to an overall cost per discharge limit. This cost-based reimbursement is subject to a retroactive settlement process. Certain other revenues, primarily from outpatient laboratory and outpatient renal, are based upon predetermined rate schedules with no retroactive settlement.

*Medicaid* – Services are rendered to patients under contractual arrangements with the Medicaid program. The Medicaid program pays for inpatient services at an all-inclusive per diem rate determined in accordance with Medicare principles, not exceeding the lower of (a) reasonable cost, or (b) the provider's customary charges to the general public. Outpatient services are paid for based on a fee schedule. Such payments are limited to amounts annually appropriated.

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**NOTE 5 NET PATIENT SERVICE REVENUE (CONTINUED)**

*Other* – The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and employer groups. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Net patient service revenue consisted of the following for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Gross Patient Service Revenue	\$ 140,802,295	\$ 136,411,042
Less:		
Medicare Contractual Adjustments	(33,222,984)	(29,565,704)
Medicaid Contractual Adjustments	(18,809,745)	(14,766,828)
Other	(19,482,426)	(21,643,754)
Provision for Uncollectible Accounts	(22,956,010)	(23,250,834)
Total	<u>\$ 46,331,130</u>	<u>\$ 47,183,922</u>

The payer mix of gross patient service revenue at September 30 was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	42%	35%
Medicaid	14	13
Commercial	27	35
Private Pay	17	17
Total	<u>100%</u>	<u>100%</u>

**NOTE 6 THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

The District is financially dependent on continued financial support by the Government of the U.S. Virgin Islands (GOVI) in the form of ongoing annual tax appropriations and periodic forgiveness of debt. Intergovernmental support in the form of tax appropriations (allotments) are received from GOVI to fund a significant portion of the salaries and benefits of the District's employees that are paid through the General Fund of the GOVI. This allotment for salaries and benefits was \$22,472,518 and \$21,323,994 in 2015 and 2014, respectively. The District also received special appropriations for operations in the amount of \$2,500,000 and \$64,037 during fiscal years 2015 and 2014, respectively. During the fiscal year ended September 30, 2015, the District also received special appropriations for other governmental relief and capital projects in the amount of \$3,979,895.

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**NOTE 6 THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS (CONTINUED)**

Special appropriations for capital projects previously awarded to the Virgin Islands Medical Assistance Program and unused as of September 30, 2015 totaled \$5,520,105. On June 1, 2015, the GOVI appropriated approximately \$22,472,518 to the District for the fiscal year ending September 30, 2016. Special appropriations for the development of a pilot day hospital program for adults with mental illness, subject to meeting certain criteria, and are expected to be collected in future periods.

**NOTE 7 LIQUIDITY**

During the years ended September 30, 2015 and 2014, the District experienced deficit of revenues over expenses of \$20,745,758 and \$1,484,887, respectively, with continued losses expected in fiscal year 2015. The District's current liabilities exceed current assets by \$28,236,786 at September 30, 2015.

The District is financially dependent on continued financial support by GOVI in the form of ongoing annual tax appropriations and periodic forgiveness of debt. The District operates the only hospital on St. Thomas and health center on St. John, providing health care related services to approximately 50,000 residents. Management believes the Hospital and Health Center are necessary providers of services and, according to statutes, the GOVI is required to provide health care services to all residents that require it. Without the Hospital and Health Center, the GOVI would not be able to fulfill the requirements of this statute as cost effectively.

The District's board of directors and management are implementing their efforts to improve the District's financial stability by closely monitoring cash flow. This includes multiple internal initiatives and development of external partnerships with industry expertise to improve operational efficiencies, evaluate charge capture and pricing improvements, reduce accounts receivable collection time, and evaluate Medicare reimbursement options and opportunities, while improving the patient experience.

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**NOTE 8 CAPITAL ASSETS**

Capital asset activity for the years ended September 30 was as follows:

	2015			
	Beginning Balance	Additions/ Transfers	Deletions	Ending Balance
Land	\$ 13,100,000	\$ -	\$ -	\$ 13,100,000
Building and Land Improvements	89,059,033	583,301	-	89,642,334
Equipment	35,583,228	2,539,581	-	38,122,809
Projects in Progress	776,189	(37,520)	(238,669)	500,000
Total Cost	138,518,450	3,085,362	(238,669)	141,365,143
Less: Accumulated Depreciation	(88,011,890)	(3,519,173)	-	(91,531,063)
Total Capital Assets	<u>\$ 50,506,560</u>	<u>\$ (433,811)</u>	<u>\$ (238,669)</u>	<u>\$ 49,834,080</u>
	2014			
	Beginning Balance	Additions/ Transfers	Deletions	Ending Balance
Land	\$ 13,100,000	\$ -	\$ -	\$ 13,100,000
Building and Land Improvements	88,528,547	530,486	-	89,059,033
Equipment	35,394,162	793,388	(604,322)	35,583,228
Projects in Progress	971,889	6,500	(202,200)	776,189
Total Cost	137,994,598	1,330,374	(806,522)	138,518,450
Less: Accumulated Depreciation	(85,030,577)	(3,493,104)	511,791	(88,011,890)
Total Capital Assets	<u>\$ 52,964,021</u>	<u>\$ (2,162,730)</u>	<u>\$ (294,731)</u>	<u>\$ 50,506,560</u>

**NOTE 9 LINE OF CREDIT**

The District opened a line of credit during 2014. Under the terms of the line of credit agreement, the District may make advances on the credit line up to an amount of \$2.0 million, collateralized against the District's receivables. At September 30, 2015 and 2014, \$- and \$750,000, respectively, was drawn on the line of credit, and incurs interest at the fixed rate of 5.25%.

**NOTE 10 PENSION AND RETIREMENT BENEFITS**

*Plan Description.* The District participates in the Government Employees' Retirement System of the U.S. Virgin Islands Government (the System), a cost-sharing multiple-employer defined benefit pension plan. The plan issues a stand-alone financial report which may be obtained at [www.usvigiers.com](http://www.usvigiers.com).

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**NOTE 10 PENSION AND RETIREMENT BENEFITS (CONTINUED)**

*Benefits Provided.* Any person who is employed at the District shall become a participant as a condition of employment, provided such person is under age 55 on the date of employment. Employees are eligible for a full-service retirement annuity when they have completed 30 years of credit service or have attained the age of 60 with at least 10 years of credit service. Employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the participant's average compensation, which is determined by averaging the five highest years of salary the member earned with the last ten years of service, subject to the maximum salary limitation of \$65,000.

*Contributions.* Contributions by members begin after completing one month of service. The contributions required to fund the System and an "actuarial reserve basis" are calculated periodically by the System's actuarial consultant. GOVI, the District, and the members make contributions to the System. Contributions are not actuarially determined but are set by statute. Either GOVI or the District is required to contribute 17.5% and 14.5% of the participants' annual salary for the fiscal years ended September 30, 2015 and 2014, respectively. The participants are required to contribute 8% or 8.5% of annual salary. For the years ended September 30, 2015 and 2014, the District's required and actual contribution to the plan was \$2,627,603 and \$2,542,227, respectively.

At September 30, 2015, the District reported a liability of approximately \$112,420,551 for its proportionate share of the net pension asset. The net pension liability was measured as of September 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating System employers, actuarially determined. At September 30, 2014, the Organization's proportion was 3.649%.

For the year ended September 30, 2015, the District recognized pension expense for the System of \$2,573,426. At September 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,046,764	\$ -
Net difference between projected and actual earnings on pension plan investments	804,632	-
Changes in proportion and differences between District contributions and proportionate share of contributions	7,038,879	10,601,191
District contributions subsequent to the measurement date	2,627,602	-
Total	<u>\$ 11,517,877</u>	<u>\$ 10,601,191</u>

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 AND 2014**

**NOTE 10 PENSION AND RETIREMENT BENEFITS (CONTINUED)**

Deferred outflows of resources of approximately \$2,627,603 resulting from the District's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30.</u>	
2016	\$ (427,729)
2017	(427,729)
2018	(427,729)
2019	(427,729)
	<u>\$ (1,710,916)</u>

*Actuarial Assumptions.* The total pension liability in the October 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Rate of Return	7.5% per year compounded annually
Projected Salary Increases	4.0% per year compounded annually, attributable to inflation

The plan currently uses mortality tables that vary by age, gender, and health status (i.e. disabled and healthy). The current mortality rates are based on the RP-2000 Healthy Annuitant Mortality Table set forward 2 years.

Future ad hoc Cost of Living Adjustments (COLA) amounts to non-disabled pensioners were suspended. Disability benefits increased by 1% up to age 60.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 AND 2014**

**NOTE 10 PENSION AND RETIREMENT BENEFITS (CONTINUED)**

The long-term expected rate of return of 7.5% on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Equity	45.0%	7.0%
International Equity	10.0%	7.5%
Fixed Income	40.0%	2.6%
Alternatives	5.0%	4.3%
Total	100.0%	

*Discount Rate.* The discount rate used to measure the total pension liability was 4.42%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the District's proportionate share of the net pension asset to changes in the discount rate.* The following presents the District's proportionate share of the net pension asset calculated using the discount rate of 4.42%, as well as what the District's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.42%) or one percentage point higher (5.42%) than the current rate:

	1% Decrease (3.42%)	Discount Rate (4.42%)	1% Increase (5.42%)
District's proportionate share of the net pension liability	\$ 130,532,652	\$ 112,420,551	\$ 97,106,513

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued report for the Government of the Virgin Islands Employees' Retirement System.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 AND 2014**

**NOTE 11 CONTINGENCIES**

The health care industry is subject to numerous laws and regulations of various governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, Medicare fraud and abuse and, under provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers, such as the Medicare Recovery Audit Contractor program (RAC). Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. 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. Federal, state, and local governments have recently proposed numerous changes related to health care reform. Management continues to evaluate the impact of new or proposed legislation.

The District is involved in litigation arising in the normal course of business. After consulting with legal counsel, it is management's opinion that these matters will be resolved without material adverse effect to the District's financial position or results of operations, as management believes all such claims are the responsibility of GOVI.

The Territorial Office of Risk Management was created by the Department of Health of the Virgin Islands to implement and administer the provisions of Title 27 Virgin Islands Code §166 et seq relating to the Department of Health's Self-Insurance Retention Program as well as other risk management programs developed by the Department of Health and the St. Thomas and St. Croix Hospitals. Accordingly, the Territorial Office of Risk Management will pay on the behalf of any health care provider all sums to which the insured shall become legally obligated to pay as damages because of:

- Injury arising out of the rendering of, or failure to render professional services by the providers, or by any person for whose acts or omissions such provider is legally responsible;
- Injury caused by a medical incident;
- Injury arising out of drugs and medicines prepared by a licensed pharmacist from a retail drug store.

In conjunction with the construction of the Charlotte Kimelman Cancer Institute in 2009, the District received a request from the general contractor for additional funds in excess of \$2,000,000 related to the construction contract and the final cost compared to the contract amount. No liability has been recognized for this amount as management, upon advice of legal counsel, believes the District has meritorious defenses that would limit the exposure of the District.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 AND 2014**

**NOTE 11 CONTINGENCIES (CONTINUED)**

During 2007, the District was under a joint investigation by the U.S. Department of the Interior, Office of the Inspector General, and the Office of the Virgin Islands Inspector General. A joint report was issued detailing the findings of the investigation. The report listed several items that the Inspectors General considered to be mismanagement of District funds. The findings have not resulted in any fines, penalties, or other actions against the District. Management and legal counsel do not expect any such actions; however, this could change in the future. Criminal charges have been filed against former members of management. The accompanying financial statements do not include any adjustments related to any potential actions against the District related to this matter.

The District is disputing certain legal fees associated with former management's response to the criminal charges identified above. The accompanying financial statements exclude approximately \$176,000 in contingent expenses and the associated contingent liabilities related to these items.

A former member of management has filed a civil complaint alleging breach of contract for failure to pay additional compensation and a severance package as contained in his employment contract. GOVI believes the District has meritorious defenses that would limit the exposure of the District. The accompanying financial statements do not include any adjustments related to this matter.

The District's employees are covered under a number of collective bargaining agreements which are negotiated on behalf of the District by GOVI. The impact of new agreements on future operations of the District is unknown, but could negatively impact the cost structure. Health claims for the District's employees are covered under a commercial insurance policy through GOVI.

**NOTE 12 CHANGE IN ACCOUNTING PRINCIPLE**

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. In November 2013, the GASB issued the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of these statements is to establish standards for measuring and recognizing assets, deferred outflows of resources, liabilities and deferred inflows of resources and expenses related to benefit plans. Prior to these standards, the District funded its share of contributions to the System plan as required by the state, but did not recognize its share of the plan's funded status on its statement of net position.

These statements are effective for the year ended September 30, 2015 and are implemented retroactively. As a result of the adoption of these statements, the District recorded a prior period adjustment to decrease its net position as of October 1, 2014 by \$110,510,483.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
PROPORTIONATE SHARE OF NET PENSION LIABILITY  
YEAR ENDED SEPTEMBER 30, 2015**

**Government Employees' Retirement System**

	2015*
District's proportion of the net pension liability (%)	3.6429%
District's proportion of the net pension liability (\$)	\$ 112,420,551
District's covered-employee payroll	38,854,487
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	289.34%
Plan fiduciary net position as a percentage of the total pension liability**	37.03%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ended September 30, 2014.

\*\* This will be the same percentage for all participant employers in the System plan.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
CONTRIBUTIONS  
YEAR ENDED SEPTEMBER 30, 2015**

**Government Employees' Retirement System**

	2015
Contractually required contribution	\$ 2,573,426
Contributions in relation to the contractually required contribution	2,573,426
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 38,854,487
Contributions as a percentage of covered-employee payroll	6.62%

*GASB 68 requires ten years of information to be presented in this table. However, until a full ten years is compiled, the District will present information for those years for which information is available.*

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency/Pass- Through Identifying Number	Disbursements/ Expenditures
<b>U.S. Department of the Interior:</b>			
Passed through the U.S. Government of the Virgin Islands			
Economic, Social and Political Development of the Territories	15.875	VI-CIP-2010-3	<u>\$ 541,832</u>
Total Expenditures of Federal Awards			<u><u>\$ 541,832</u></u>

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Schneider Regional Medical Center and is presented on the accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Accordingly, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Schneider Regional Medical Center,  
a District of Virgin Islands Government  
Hospitals and Health Facilities Corporation  
St. Thomas, Virgin Islands

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Schneider Regional Medical Center, (the District), a district of Virgin Islands Government Hospitals and Health Facilities Corporation which comprise the statement of net position as of September 30, 2015, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 27, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Schneider Regional Medical 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 Schneider Regional Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Schneider Regional Medical Center's internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies, Finding 2015-01, 2015-02, 2015-03, and 2015-04, described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Board of Directors  
Schneider Regional Medical Center,  
a District of Virgin Islands Government  
Hospitals and Health Facilities Corporation

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Schneider Regional Medical 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*.

### **Schneider Regional Medical Center's Response to Findings**

Schneider Regional Medical Center's response to the finding identified in our audit is described in the accompany schedule of audit findings and questioned costs. Schneider Regional Medical Center's response was not subjected to the auditing procedures applied in the audit of the 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 Schneider Regional Medical 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 Schneider Regional Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



### **CliftonLarsonAllen LLP**

Bellevue, Washington  
May 27, 2016

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

Board of Directors  
Schneider Regional Medical Center,  
a District of Virgin Islands Government  
Hospitals and Health Facilities Corporation  
St. Thomas, Virgin Islands

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

We have audited Schneider Regional Medical Center's 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 Schneider Regional Medical Center's (the District), a district of Virgin Islands Government Hospitals and Health Facilities Corporation, major federal programs for the year ended September 30, 2015. Schneider Regional Medical Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Schneider Regional Medical 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; 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 Schneider Regional Medical 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 Schneider Regional Medical Center's compliance.

Board of Directors  
Schneider Regional Medical Center  
a District of Virgin Islands Government  
Hospitals and Health Facilities Corporation

**Opinion on Each Major Federal Program**

In our opinion, Schneider Regional Medical 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 September 30, 2015.

**Report on Internal Control Over Compliance**

Management of Schneider Regional Medical 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 Schneider Regional Medical 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 Schneider Regional Medical 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
May 27, 2016

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2015**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified     X     Yes          No
- Significant deficiency(ies) identified not considered to be material weakness(es)          Yes     X     None reported
- Noncompliance material to financial statements noted          Yes     X     No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified          Yes     X     No
- Significant deficiency(ies) identified not considered to be material weakness(es)          Yes     X     None reported

Types of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?          Yes     X     No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories

Dollar threshold used to distinguish \$300,000

Auditee qualified as low-risk auditee?          Yes     X     No

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2015**

**Section II – Financial Statement Findings**

**Finding 2015-001**

**Material Weakness Over Financial Management Systems**

**Criteria:** In accordance with generally accepted accounting principles (GAAP) and financial management system standards as prescribed in the Office of Management and Budget (OMB) Circular A-87, Schneider Regional Medical Center is required to maintain proper internal controls to ensure that underlying accounts are properly stated as of September 30, 2015.

**Condition Found and Context:** During our performance of audit procedures, we noted material audit adjustments that were needed in order for Schneider Regional Medical Center's financial statements to be materially stated as of and for the year ended September 30, 2015.

**Cause:** Schneider Regional Medical Center's year-end close process was not sufficient to identify the noted audit differences.

**Effect:** Potential that material transactions would not be recognized in the proper period.

**Recommendation:** We recommend that Schneider Regional Medical Center evaluate their general ledger closing process throughout the fiscal year, as well as at the fiscal year-end. The closing process should be sufficient to identify all material differences in accounts, as well as other errors that could potentially result in material differences.

**Views of Responsible Officials and Planned Corrective Actions:** Schneider Regional Medical Center has experienced challenges within their financial department due to staffing turnover. The Hospital recognizes the need for qualified and stable management in this department and has focused a significant amount of resources to remedy the situation.

**Finding 2015-002**

**Material Weakness Over Payroll Cycle**

**Criteria:** In accordance with generally accepted accounting principles (GAAP) and financial management system standards as prescribed in the Office of Management and Budget (OMB) Circular A-87, Schneider Regional Medical Center is required to maintain proper internal controls to ensure that underlying accounts are properly stated as of September 30, 2015.

**Condition Found and Context:** During our auditing of payroll controls, we noted that the individuals who currently have the ability to process payroll can also change wage rates and withholdings, and print checks. We also noted that several employees in accounting can also change wage rates and withholdings. Together these functions create an opportunity for the misappropriation of the District's assets. In addition, no formal mitigating controls exist.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2015**

**Finding 2015-002 (Continued)**

**Cause:** Schneider Regional Medical Center's process was not sufficient to prevent individuals that have processing and financial accounting and close responsibilities from making changes in the payroll system.

**Effect:** Potential for misappropriation of the Schneider Regional Medical Center's assets and misstatement of financial information.

**Recommendation:** We recommend that Schneider Regional Medical Center should limit access to wage rate changes and withholdings changes to one individual who does not have access to the payroll cycle.

**Views of Responsible Officials and Planned Corrective Actions:** Schneider Regional Medical Center acknowledges that a lack of segregation of duties currently exists and will work to segregate responsibilities for future periods.

**Finding 2015-003**

**Material Weakness Over Disbursements**

**Criteria:** In accordance with generally accepted accounting principles (GAAP) and financial management system standards as prescribed in the Office of Management and Budget (OMB) Circular A-87, Schneider Regional Medical Center is required to maintain proper internal controls to ensure that underlying accounts are properly stated as of September 30, 2015.

**Condition Found and Context:** During our auditing of cash and disbursements subsequent to September 30, 2015, we observed materials management accounts payable as well as accruals where no formal process existed to reconcile these estimated amounts to specific vendor activity. This included some instances in which invoices received and paid for goods and services were not always matched with purchase orders within the materials management system resulting in items being inappropriately accrued at the period end. In addition, the disbursement cycle did not follow written policies and procedures designed to segregate duties. During the year a CFO was an authorized signer for check disbursements. Without proper segregation of duties management has the ability to override controls.

**Cause:** Schneider Regional Medical Center's process was not sufficient to identify the noted audit differences

**Effect:** Potential for misappropriation of the Schneider Regional Medical Center's assets and misstatement of financial information.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2015**

**Finding 2015-003 (Continued)**

**Recommendation:** We recommend that Schneider Regional Medical Center should review all processes related to the authorization and recording of accounts payable and accrued expenses to ensure that such appropriate amounts are recorded, on an individual basis, in the correct time period as a liability and as an expense. Monthly reconciliations of accounts payable, materials management accruals, and the cash accounts should be performed. Schneider Regional Medical Center should also review the policies and procedures associated with matching invoices with purchase orders to ensure that purchase orders are properly closed out. In addition, management should establish procedures for the periodic review of the system generated Received Not Invoiced report to identify and address old items in a timelier manner.

**Views of Responsible Officials and Planned Corrective Actions:** Schneider Regional Medical Center acknowledges that documentation for payment is not always equally reviewed. Management will further ensure that, prior to closing the period, purchase orders are reviewed jointly by Materials Management and Accounts Payable in order to determine their continued need and that invoices are not inappropriately accrued against open purchase orders.

**Finding 2015-004**

**Material Weakness Accounts Receivable**

**Criteria:** In accordance with generally accepted accounting principles (GAAP) and financial management system standards as prescribed in the Office of Management and Budget (OMB) Circular A-87, Schneider Regional Medical Center is required to maintain proper internal controls to ensure that underlying accounts are properly stated as of September 30, 2015.

**Condition Found and Context:** During our auditing of accounts receivable and the related allowances for contractual adjustments and doubtful accounts we identified the following issues:

Credit Balances

We identified a significant amount and number of accounts being reported as credit balances as of September 30, 2015. Our testing identified that many of these accounts were several years old. These credit balances were results of various erroneous posting transactions:

- Payments which were posted to the incorrect account for which a remaining debit balance exists.
- Payments received that were posted to an “unclassified” account and not subsequently identified and transferred to an offsetting patient debit balance.
- Contractual adjustments incorrectly posted to an account as a credit.

**Cause:** Schneider Regional Medical Center’s process was not sufficient to identify the noted audit differences

**Effect:** Potential for misstatements of financial information

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2015**

**Finding 2015-004 (Continued)**

**Recommendation:** We recommend that Schneider Regional Medical Center investigate and identify which credit balances are the result of legitimate over payments that should be refunded to patients or third-party payers and which are the result of posting errors. In addition, processes should be reviewed and procedures designed and implemented to ensure that credit balances are investigated and resolved in a timely manner with refunds processed for overpayments.

**Views of Responsible Officials and Planned Corrective Actions:** Schneider Regional Medical Center concurs with the recommendation and has a process for validating credit balances. The Business Office will continue to ensure that the process is followed and will provide requests for refunds if appropriate. It is management's position that postings to the unapplied cash accounts are reviewed regularly to ensure their usage that they are applied to the requisite receivables within the established timeline. In addition, all third-party settlements are posted in Order Entry by the cashiers and moved to the appropriate general ledger account by staff per protocol. Management will further review the process. Management recognizes the issue and has been analyzing unapplied credit balances as part of the validation process. There is continued collaboration between Medical Records, Patient Access, and Patient Accounting in an effort to curtail or minimize the occurrence.

**Section III – Federal Audit Findings**

No matters were reported.

**SCHNEIDER REGIONAL MEDICAL CENTER  
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT  
HOSPITALS AND HEALTH FACILITIES CORPORATION  
PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2015**

There were no prior A-133 audit findings.