SCHNEIDER REGIONAL MEDICAL CENTER

A DISTRICT OF VIRGIN ISLANDS GOVERNMENT HOSPITALS AND HEALTH FACILITIES CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

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YEARS ENDED SEPTEMBER 30, 2013 AND 2012

CliftonLarsonAllen

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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

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, 2013 and 2012, 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. 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.

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, 2013 and 2012 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
March 26, 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, 2013 and 2012. 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 less than one percent lower than in 2012 and operating expenses were less than one percent lower than in 2012, resulting in an operating loss less than one percent lower than in 2012. Total nonoperating revenues were approximately $34,176,000 less than in 2012. This variance is primarily due to the forgiveness of debt of $32,273,427 in 2012 which was not repeated in 2013. The loss before contributions for capital and forgiveness of debt was approximately 2.5 percent more than in 2012. Additionally, contributions of capital assets were $107,714 less than in 2012.

Inpatient gross revenues increased $3,110,000 or 4 percent in fiscal year 2013 from the prior year. Additionally patient days increased by approximately 14 percent from 2012. Outpatient gross revenues decreased during 2013 by $8,776,000 or 13 percent. Lower utilization resulted in the overall decrease in outpatient gross revenues.

Current assets continue to lag behind current liabilities. Current assets decreased from 81 percent of current liabilities in 2012 to 59 percent in 2013. This decrease is primarily due to the Payroll for NOPA employees being transferred to the hospital. The Allotment provided by the Central Government fails to cover the entire payroll expense for the NOPA employees. As such, the hospital has to make up the difference by paying these salaries out of the operating funds. Additionally, during the past couple of years, the General Fund's open positions were frozen by GOVI. In order to fill open critical positions, the District had to hire employees under the Health Revolving Fund and utilize its operating account for contract employees.

FINANCIAL HIGHLIGHTS (CONTINUED)

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.

This audit report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis*. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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 2013, 2012, and 2011 are presented side by side (comparatively). This presentation assists the reader to identify significant changes between the years.

	September 30,		
	2013	2012	2011
Assets:			
Current Assets	$ 20,986,552	$ 23,736,874	$ 23,497,326
Assets Limited as to Use	823,950	773,962	574,068
Capital Assets, Net of Accumulated Depreciation	52,964,021	57,086,342	60,779,128
Other Noncurrent Assets	255,521	262,177	494,939
Total Assets	$ 75,030,044	$ 81,859,355	$ 85,345,461
Liabilities:			
Current Liabilities	$ 34,116,252	$ 29,222,133	$ 55,124,231
Net Position:			
Invested in Capital Assets	52,964,021	57,086,342	60,779,128
Unrestricted	(12,874,179)	(5,223,082)	(32,331,586)
Restricted as to Use	823,950	773,962	1,773,688
Total Net Position	40,913,792	52,637,222	30,221,230
Total Liabilities and Net Position	$ 75,030,044	$ 81,859,355	$ 85,345,461

The most significant asset for the District was capital assets. This asset decreased approximately seven and six percent during 2013 and 2012, respectively. Although the District added some assets in fiscal years 2013 and 2012, the District's depreciation expense for those years far outweighed the assets added during that same time period.

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

Condensed Statements of Net Position (Continued)

The second most significant asset for the District was net patient accounts receivable, which is included in current assets. These receivables represent approximately 20 and 19 percent of the District's total assets at September 30, 2013 and 2012, respectively. Net patient accounts receivable decreased approximately three and two percent during the fiscal years ending September 30, 2013 and 2012, respectively. During fiscal year 2013, gross patient receivables decreased by approximately $13,200,000 from 2012, and the reserves needed against the 2013 receivables decreased by approximately $12,700,000, for an approximate $500,000 decrease in net receivables. During fiscal year 2012, gross patient receivables increased by approximately $3,700,000 from 2011, and the reserves needed against the 2012 receivables increased by approximately $3,300,000, for an approximate $400,000 increase in net receivables.

At September 30, 2013, total liabilities were approximately $4,900,000 higher than in 2012. At September 30, 2012, total liabilities were approximately $25,902,000 lower than in 2011

The most significant liability is the due to/from GOVI. This liability had no significant change in fiscal 2013 and decreased approximately $27,031,000 in 2012. This liability relates to the Health Revolving Fund for GOVI. These funds were disbursed by GOVI to the District's employees not funded under the General Fund. When GOVI froze the open positions in the General Fund during 2009, the District began filling the vacancies by placing additional employees on the Health Revolving Fund.

Net Position: Net position totaled $40,913,792 and $52,637,222 as of September 30, 2013 and 2012, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

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,		
	2013	2012	2011
Net Patient Service Revenue	$ 51,473,893	$ 54,931,618	$ 54,058,035
Other Operating Revenue	1,919,889	1,729,304	1,916,490
Total Operating Revenues	53,393,782	56,660,922	55,974,525
Salaries and Benefits, Including Agency Staffing Fees	44,508,091	45,942,849	47,840,264
Professional Fees, Supplies and Other	37,762,916	39,094,002	40,913,827
Depreciation	4,269,076	4,836,759	4,830,548
Total Operating Expenses	86,540,083	89,873,610	93,584,639
Operating Loss	(33,146,301)	(33,212,688)	(37,610,114)
Nonoperating Revenue and Expenses	21,422,871	23,355,253	28,367,103
Loss Before Contributions for Capital Assets and Forgiveness of Debt	(11,723,430)	(9,857,435)	(9,243,011)
Contributions of and for Capital Assets	-	-	25,497
Forgivenss of Debt Owed to the U.S. Virgin Islands Government	-	32,273,427	-
Increase (Decrease) in Net Position	(11,723,430)	22,415,992	(9,217,514)
Net Position - Beginning of Year	52,637,222	30,221,230	39,438,744
Net Position - End of Year	$ 40,913,792	$ 52,637,222	$ 30,221,230

Operating Revenues: Total operating revenues were $53,393,782 and $56,660,922 for the fiscal years ended September 30, 2013 and 2012, respectively. Patient revenues make up all but three percent of total operating revenue for the fiscal years ended September 30, 2013 and 2012.

In fiscal year 2013, net patient revenues decreased by approximately $3,457,000, or six percent. Gross patient revenue decreased approximately $3,405,000, or two percent, revenue deductions, excluding the impact of bad debt, also decreased by approximately $3,212,000 or five percent. The remaining difference is due to the increase in bad debt expense of approximately $3,264,000 or 18 percent.

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

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

In fiscal year 2012, net patient revenues increased by approximately $874,000, or two percent. Although gross patient revenue increased approximately $5,657,000, or four percent, revenue deductions, excluding the impact of bad debt, also increased by approximately $474,000 or one percent. The remaining difference is due to the increase in bad debt expense of approximately $4,309,000 or 32 percent.

Operating Expenses: Total operating expenses were $86,540,083 and $89,873,610 for the fiscal years ended September 30, 2013 and 2012, respectively. Operating expenses as a percentage of operating revenue increased from 159 percent in fiscal 2012, to 162 percent in fiscal 2013. Operating expenses increased by approximately $3,334,000, or three percent, in fiscal year 2013 and approximately $3,711,000, or four percent, in fiscal year 2012.

The most significant operating expense in 2013 salaries, wages, and benefits at $44,508,091, or 51 percent of total operating expenses. This expense declined by approximately $1,435,000, or three percent from 2012. The most significant expense in 2012 was salaries, wages, and benefits at $45,942,849, or 51 percent of total operating expenses. This expense declined by approximately $1,897,000, or four percent from 2011.

During fiscal years 2013 and 2012, professional fees increased approximately $1,258,000 or 12 percent, and approximately $314,000, or three percent, from prior year, respectively.

Nonoperating Revenue (Expense): Total nonoperating revenue, net of expenses, for the current year, decreased approximately $1,932,000 or eight percent, and $5,012,000, or 18 percent, from the prior year, respectively.

Tax appropriations from GOVI are the most significant nonoperating item for the District. During 2013, this category decreased approximately $1,775,000, or 8 percent, which accounts for the decrease in nonoperating revenue (expenses) in 2013. During 2012, this category decreased approximately $5,039,000, or 18 percent, which accounts for the decrease in nonoperating revenue (expenses) in 2012.

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

Key Operational Indicators

	2013	2012	2011
Patient Days	22,247	19,577	19,984
Average Daily Census	56	54	55
Inpatient Surgeries	1,250	875	1,261
Outpatient Surgeries	1,846	3,945	2,196
Emergency Room Visits	19,116	19,539	20,201
Outpatient Registrations	26,431	28,753	31,626

Patient Days and Inpatient Surgeries both increased between 2013 and 2012. Outpatient surgeries decreased significantly and emergency room visits and outpatient registrations also experienced decreases.

Except for outpatient surgery hours, most other key operational indicators decreased between 2011 and 2012. Most significantly is the decline of 2,873 or nine percent in outpatient registration. This drop in registration accounts for much of the decrease in gross outpatient revenue.

Condensed Statements of Cash Flows

	2013	2012	2011
Cash Provided By (Used In):			
Operating Activities	$ (24,158,920)	$ (22,469,801)	$ (24,827,066)
Noncapital Financing Activities	21,383,148	23,309,616	28,307,917
Capital and Related Financing Activities	(146,755)	(1,143,973)	(2,278,050)
Investing Activities	39,723	45,637	59,186
(Decrease) Increase in Cash and Cash Equivalents	(2,882,804)	(258,521)	1,261,987
Cash and Cash Equivalents - Beginning of Year	5,647,797	5,906,318	4,644,331
Cash and Cash Equivalents - End of Year	$ 2,764,993	$ 5,647,797	$ 5,906,318

Funds from Operating Activities: In fiscal year 2013, cash provided by or used by operating activities of a negative $24,158,920 was approximately $1,689,000 less than the prior fiscal year. The major source of operating funds was receipts from and on behalf of patients ($51,188,000 in 2013), which was approximately $1,817,000 less than collected in 2012. Cash paid to suppliers was $33,541,000 in 2013, which was approximately $4,071,000 less than in 2012. Cash paid to employees was approximately $3,656,000 more than in 2012.

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

Condensed Statements of Cash Flows (Continued)

In fiscal year 2012, cash provided by or used by operating activities of a negative $22,469,801 was approximately $2,357,000 less than the prior fiscal year. The major source of operating funds was receipts from and on behalf of patients ($53,005,038 in 2012), which was approximately $3,225,000 less than collected in 2011. Cash paid to suppliers was $37,611,900 in 2012, which was approximately $652,000 more than in 2011. Cash paid to employees was approximately $4,980,000 less than in 2011.

Funds from Noncapital Financing Activities: Cash received from GOVI for funding of the General Payroll Fund is the main category. This category decreased approximately $1,775,000 and $4,600,000 in fiscal years ended September 30, 2013 and 2012, respectively.

Funds from Capital and Related Financing Activities: Cash used in the purchase of capital assets decreased approximately $997,000 in fiscal year 2013 and decreased $1,160,000 in fiscal year 2012.

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 decreased eight percent from 2012 to 2013, and decreased four percent from 2011 to 2012.

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 for the fiscal years of 2008, 2009, 2010, and 2011.

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
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT
HOSPITALS AND HEALTH FACILITIES CORPORATION
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,941,043	$ 4,873,835
Patient Accounts Receivable, Net	15,252,689	15,716,562
Estimated Amounts Due from Third-Party Payers, Net	1,500,000	750,000
Other Receivables, Net	269,830	262,542
Inventories	2,022,990	2,133,935
Total Current Assets	20,986,552	23,736,874
ASSETS LIMITED AS TO USE	823,950	773,962
CAPITAL ASSETS	52,964,021	57,086,342
OTHER ASSETS	255,521	262,177
Total Assets	$ 75,030,044	$ 81,859,355
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable to Vendors	$ 24,405,074	$ 20,300,420
Accrued Payroll and Benefits	2,801,970	2,038,978
Accrued Compensated Absences	3,210,816	3,183,543
Due to the Government of the U.S. Virgin Islands	3,698,392	3,699,192
Total Current Liabilities	34,116,252	29,222,133
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Invested in Capital Assets	52,964,021	57,086,342
Unrestricted	(12,874,179)	(5,223,082)
Restricted as to Use	823,950	773,962
Total Net Position	40,913,792	52,637,222
Total Liabilities and Net Position	$ 75,030,044	$ 81,859,355

See accompanying Notes to Financial Statements.

SCHNEIDER REGIONAL MEDICAL CENTER
A DISTRICT OF VIRGIN ISLANDS GOVERNMENT
HOSPITALS AND HEALTH FACILITIES CORPORATION
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
OPERATING REVENUE		
Net Patient Service Revenue	$ 51,473,893	$ 54,931,618
Other	1,919,889	1,729,304
Total Operating Revenue	53,393,782	56,660,922
OPERATING EXPENSES		
Salaries and Benefits, Including Agency Staffing Fees	44,508,091	45,942,849
Professional Fees	12,155,721	10,897,921
Supplies and Other	25,607,195	28,196,081
Depreciation	4,269,076	4,836,759
Total Operating Expenses	86,540,083	89,873,610
OPERATING LOSS	(33,146,301)	(33,212,688)
NONOPERATING REVENUES		
Tax Appropriations from the Government of the U.S. Virgin Islands	21,022,637	22,797,813
Interest Income	39,723	45,637
Contributions	360,511	511,803
Net Nonoperating Revenues	21,422,871	23,355,253
LOSS BEFORE FORGIVENESS OF DEBT	(11,723,430)	(9,857,435)
FORGIVENESS OF DEBT OWED TO THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS	-	32,273,427
(DECREASE) INCREASE IN NET POSITION	(11,723,430)	22,415,992
Net Position - Beginning of Year	52,637,222	30,221,230
NET POSITION - END OF YEAR	$ 40,913,792	$ 52,637,222

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, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third-Party Payers	$ 51,187,766	$ 53,005,038
Cash Received from Others	1,912,601	2,199,567
Cash Paid to Suppliers and Others	(33,540,661)	(37,611,900)
Cash Paid to and on Behalf of Employees	(43,718,626)	(40,062,506)
Net Cash Used by Operating Activities	(24,158,920)	(22,469,801)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tax Appropriations from the Government of the U.S. Virgin Islands	21,022,637	22,797,813
Noncapital Contributions	360,511	511,803
Net Cash Provided by Noncapital Financing Activities	21,383,148	23,309,616
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(146,755)	(1,143,973)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	39,723	45,637
DECREASE IN CASH AND CASH EQUIVALENTS	(2,882,804)	(258,521)
Cash and Cash Equivalents - Beginning of Year	5,647,797	5,906,318
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,764,993	$ 5,647,797
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and Cash Equivalents in Current Assets	$ 1,941,043	$ 4,873,835
Assets Limited as to Use	823,950	773,962
Total	$ 2,764,993	$ 5,647,797

See accompanying Notes to Financial Statements.

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (33,146,301)	$ (33,212,688)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	4,269,076	4,836,759
Provision for Uncollectible Accounts	21,236,317	17,973,582
Changes in Operating Assets and Liabilities:		
Patient Accounts Receivable	(20,779,732)	(17,876,775)
Estimated Amounts Due to/from Third-Party Payers	(750,000)	(1,553,124)
Other Assets	6,656	232,762
Inventories	110,945	(44,770)
Accounts Payable and Accrued Expense, Accrued Payroll, and Estimated Accrued Compensated Absences	4,894,919	1,932,215
Due to the Government of the U.S. Virgin Islands	(800)	5,242,238
Net Cash Used by Operating Activities	$ (24,158,920)	$ (22,469,801)
SUPPLEMENTAL CASH FLOWS INFORMATION		
Forgiveness of Debt Owed to the Government of the U.S. Virgin Islands	$ -	$ 33,273,427

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.

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 28 percent and 49 percent in 2013 and 2012, respectively, of its financial support from the Government of the U.S. Virgin Islands (see Note 6).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 collectibility 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, including amortization of assets held under capital leases, 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

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.

Assets held under capitalized leases are amortized over the shorter of the lease term or the estimated useful lives of the asset. Amortization expense is included as a part of depreciation expense in the statements of revenue, expenses, and changes in net position and as a part of accumulated depreciation in the statements of net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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.

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 2013 and 2012, measured by the Hospital's standard charges, was $509,575 and $2,765,879, respectively.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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.

Reclassifications

Certain items in the 2012 financial statements have been reclassified for comparability purposes with the 2013 financial statements. The reclassifications had no change on the overall net position of Schneider Regional Medical Center.

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:

	2013	2012
Insured (FDIC)	$ 250,000	$ 250,000
Collateralized by Securities Held by Pledging Financial Institutions in the Name of the U.S. Virgin Islands	6,913,226	6,913,226
Total	$ 7,163,226	$ 7,163,226
Carrying Amount, Including Amounts Shown as Assets Limited as to Use	$ 2,764,993	$ 5,647,797

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 percent or more of its total investments. At September 30, 2013 and 2012, the District did not hold any investments. Assets limited as to use include only bank deposits.

NOTE 2 BANK DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2013 and 2012.

NOTE 3 ASSETS LIMITED AS TO USE

Assets limited as to use were comprised of the following as of September 30:

	2013	2012
Licensed Practical Nurse Training Program	$ 28,243	$ 28,243
Restricted by Donor for Capital Purchases	359,519	309,531
Foundation Assets	436,188	436,188
Total Assets Limited as to Use	$ 823,950	$ 773,962

All assets limited as to use are reported as restricted net position of the District as of September 30, 2013 and 2012. 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. The Foundation depository account has been frozen by the Office of the Lieutenant Governor of the U.S. Virgin Islands due to the failure to file required corporate governance documents. District management is working to resolve the issue with the Lieutenant Governor's office.

NOTE 4 NET PATIENT ACCOUNTS RECEIVABLE

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

	2013	2012
Medicare	$ 6,580,855	$ 9,879,704
Medicaid	2,840,053	5,840,352
Commercial and Other	14,597,453	19,267,295
Self-Pay	16,175,594	18,408,781
Total	40,193,955	53,396,132
Less: Allowance for Uncollectible Amounts	(24,941,266)	(37,679,570)
Total Patient Accounts Receivable, Net	$ 15,252,689	$ 15,716,562

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.

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.

NOTE 5 NET PATIENT SERVICE REVENUE (CONTINUED)

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

	2013	2012
Gross Patient Service Revenue	$ 136,535,625	$ 139,942,860
Less:		
Medicare Contractual Adjustments	(34,186,803)	(31,068,311)
Medicaid Contractual Adjustments	(13,699,482)	(15,994,130)
Other	(15,939,130)	(19,975,219)
Provision for Uncollectible Accounts	(21,236,317)	(17,973,582)
Total	$ 51,473,893	$ 54,931,618

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

	2013	2012
Medicare	39%	36%
Medicaid	11	13
Commercial	32	34
Private Pay	18	17
Total	100%	100%

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 $20,958,600 and $20,735,588 in 2013 and 2012, respectively. The District also received special appropriations for operations in the amount of $64,037 and $2,062,225 during fiscal years 2013 and 2012, respectively. In addition, on December 16, 2011, the Legislature of GOVI passed a bill which included the forgiveness of debt owed by the District to GOVI, which totaled $32,273,427. This was recorded as forgiveness of debt owed to the GOVI for the fiscal year ended September 30, 2012. The remaining net liability due to GOVI was $3,698,392 and $3,699,192 at September 30, 2013 and 2012, respectively.

On October 25, 2013, the GOVI appropriated to the District $21,323,994 for the fiscal year ending September 30, 2014.

NOTE 7 LIQUIDITY

During the years ended September 30, 2013 and 2012, The District experienced losses before contributions of capital and forgiveness of debt of $11,723,430 and $9,857,435, respectively, with continued losses expected in fiscal year 2014. Despite the forgiveness of debt owed to GOVI of $32,273,427 in fiscal year 2012, the District's current liabilities exceed current assets by $13,129,700 at September 30, 2013.

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.

NOTE 8 OTHER RECEIVABLES

Included in other receivables are employee receivables, physician advances, and other miscellaneous receivables, net of estimated allowances for uncollectible amounts. While management believes such net amounts will ultimately be collected, the timing is uncertain due to funding and other potential limitations, although such amounts have been presented as a part of current assets to the extent they are currently due. Management's expectations regarding collection of these amounts are subject to change in the near term.

Other receivables at September 30, 2013 and 2012 also include payments the District made to a former member of executive management in the amount of $1,539,000 that management believed were required under the employment contract in effect at the time of the payments. Management later determined that the payments were not due under the contract. The District intends to seek repayment of these funds. The probability of collection of these amounts is not known and such receivables are fully reserved.

NOTE 9 CAPITAL ASSETS

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

	2013			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 13,100,000	$ -	$ -	$ 13,100,000
Building and Land Improvements	87,146,851	-	-	87,146,851
Equipment	36,629,103	146,755	-	36,775,858
Projects in Progress	971,889	-	-	971,889
Total Cost	137,847,843	146,755	-	137,994,598
Less: Accumulated Depreciation	(80,761,501)	(4,269,076)	-	(85,030,577)
Total Capital Assets	$ 57,086,342	$ (4,122,321)	$ -	$ 52,964,021

	2012			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 13,100,000	$ -	$ -	$ 13,100,000
Building and Land Improvements	87,123,594	23,257	-	87,146,851
Equipment	35,757,056	872,047	-	36,629,103
Projects in Progress	723,220	248,669	-	971,889
Total Cost	136,703,870	1,143,973	-	137,847,843
Less: Accumulated Depreciation	(75,924,742)	(4,836,759)	-	(80,761,501)
Total Capital Assets	$ 60,779,128	$ (3,692,786)	$ -	$ 57,086,342

NOTE 10 DEFINED BENEFIT PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS

The District participates in the Employees' Retirement System of the U.S. Virgin Islands Government (the System), a defined benefit pension plan. The plan issues a stand-alone financial report which may be obtained at www.usvigers.com. 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. 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 percent and 14.5 percent of the participants' annual salary for the fiscal years ending September 30, 2013 and 2012, respectively. The participants are required to contribute 8 percent or 8.5 percent of annual salary. For the years ended September 30, 2013, 2012, and 2011, the District's required and actual contribution to the plan was $770,603, $2,550,627, and $2,945,838, respectively.

NOTE 10 DEFINED BENEFIT PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

In June 2012, GASB issued Statement No. 68, *Accounting and Reporting for Pensions,* an amendment of GASB Statement No. 27. This statement changes a number of accounting and disclosure requirements for organizations with defined benefit pension plans, and other types of pension plans. Among other requirements, the statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pension (net liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

The provisions of this standard are effective for years beginning after June 15, 2014, with earlier application encouraged. The District has not yet assessed the impact of this statement.

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.

NOTE 11 CONTINGENCIES (CONTINUED)

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.

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.

NOTE 11 CONTINGENCIES (CONTINUED)

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 FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying value of its financial instruments, including cash and cash equivalents, patient accounts and other receivables, accounts payable and accrued expenses, and amounts due to GOVI, are at fair value or approximate fair value due to the nature and short-term maturities of these instruments.