

**The Floating Hospital, Inc. and Affiliates**

**Consolidated Financial Statements,  
Schedule of Expenditures of Federal  
Awards, Internal Control and Compliance  
(With Supplementary Information)  
and Independent Auditor's Reports**

**December 31, 2019**

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# The Floating Hospital, Inc. and Affiliates

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## Independent Auditor's Report

To the Board of Directors  
The Floating Hospital, Inc. and Affiliates

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Floating Hospital, Inc. and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of the Affiliates were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the accompanying statements on pages 27 and 28 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the changes in net assets of the individual organizations, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the consolidated financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



New York, New York  
August 5, 2020

**The Floating Hospital, Inc. and Affiliates**  
**Consolidated Statement of Financial Position**  
**December 31, 2019**

Assets

Current assets	
Cash	\$ 278,371
Short-term investment	5,721
Patient services receivable	1,290,205
Grants and contracts receivable	945,816
Prepaid expenses and other receivables	441,455
	<hr/>
Total current assets	2,961,568
Noncurrent assets	
Restricted cash	1,841,732
Loan receivable	4,971,400
Property and equipment, net	7,402,297
Security deposits	152,797
	<hr/>
Total noncurrent assets	14,368,226
	<hr/>
Total assets	\$ 17,329,794
	<hr/> <hr/>

Liabilities and Net Assets

Current liabilities	
Line of credit	\$ 1,200,000
Accounts payable and accrued expenses	1,160,811
Accrued compensation	735,735
Current maturities of long-term debt	244,753
	<hr/>
Total current liabilities	3,341,299
Noncurrent liabilities	
Long-term debt, less current maturities	10,185,247
	<hr/>
Total liabilities	13,526,546
Commitments and contingencies	
Net assets	
Without donor restrictions	3,425,042
With donor restrictions	378,206
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Total net assets	3,803,248
	<hr/>
Total liabilities and net assets	\$ 17,329,794
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See Notes to Consolidated Financial Statements.

**The Floating Hospital, Inc. and Affiliates**

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2019**

	Without donor restrictions	With donor restrictions	Total
Revenue			
Patient services (net of contractual allowances and discounts)	\$ 9,737,619	\$ -	\$ 9,737,619
DHHS grants	5,125,750	-	5,125,750
Contract services and other grants	4,595,447	-	4,595,447
Contributions	1,100,726	513,000	1,613,726
Donated medicines	701,342	-	701,342
Pharmacy revenue	190,224	-	190,224
Other	1,043,693	-	1,043,693
Net assets released from restrictions	1,193,710	(1,193,710)	-
Total revenue	<u>23,688,511</u>	<u>(680,710)</u>	<u>23,007,801</u>
Expenses			
Salaries and benefits	14,497,210	-	14,497,210
Other than personnel services	8,833,733	-	8,833,733
Interest	37,145	-	37,145
Total expenses	<u>23,368,088</u>	<u>-</u>	<u>23,368,088</u>
Changes in net assets before depreciation and amortization	320,423	(680,710)	(360,287)
Depreciation and amortization	341,256	-	341,256
Changes in net assets	(20,833)	(680,710)	(701,543)
Net assets			
Beginning	<u>3,445,875</u>	<u>1,058,916</u>	<u>4,504,791</u>
End	<u>\$ 3,425,042</u>	<u>\$ 378,206</u>	<u>\$ 3,803,248</u>

See Notes to Consolidated Financial Statements.

**The Floating Hospital, Inc. and Affiliates**

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

	Program services	General and administrative	Fundraising and development	Total
Salaries and wages	\$ 9,396,825	\$ 1,574,754	\$ 121,033	\$ 11,092,612
Fringe benefits and payroll taxes	2,959,012	436,784	8,802	3,404,598
Consultants and contractual services	832,877	218,644	29,823	1,081,344
Professional fees	224,990	253,624	-	478,614
Consumable supplies	1,977,351	60,659	41,330	2,079,340
Healthcare consultants	370,897	-	-	370,897
Occupancy	565,170	111,500	-	676,670
Laboratory fees	36,214	28	-	36,242
Insurance	380,382	84,751	-	465,133
Repairs and maintenance	392,312	62,081	-	454,393
Equipment rental	49,239	11,985	-	61,224
Dues and subscriptions	47,142	20,358	-	67,500
Telephone	154,171	17,547	-	171,718
Travel, conferences and meetings	26,444	24,144	-	50,588
Patient transportation	141,350	592	-	141,942
Data processing	224,695	34,344	331	259,370
Printing, publications and postage	24,529	13,990	4,926	43,445
Public information	46,594	10,683	67,750	125,027
Special events	2,795	1,426	821,943	826,164
Interest	4,815	15,815	16,515	37,145
Other	301,933	27,188	1,115,001	1,444,122
	<u>18,159,737</u>	<u>2,980,897</u>	<u>2,227,454</u>	<u>23,368,088</u>
Depreciation and amortization	<u>306,292</u>	<u>34,126</u>	<u>838</u>	<u>341,256</u>
Total functional expenses	<u><u>\$ 18,466,029</u></u>	<u><u>\$ 3,015,023</u></u>	<u><u>\$ 2,228,292</u></u>	<u><u>\$ 23,709,344</u></u>

See Notes to Consolidated Financial Statements.

## The Floating Hospital, Inc. and Affiliates

### Consolidated Statement of Cash Flows Year Ended December 31, 2019

Cash flows from operating activities	
Cash received from patient services	\$ 9,907,487
Cash received from DHHS grants	5,125,750
Cash received from contract services and other grants	4,670,952
Cash received from contributions	1,613,726
Cash received from pharmacy	190,224
Cash received from other	995,908
Cash paid to employees	(14,492,825)
Cash paid to vendors	(7,851,064)
Cash paid for interest	(37,145)
	<hr/>
Net cash provided by operating activities	123,013
	<hr/>
Cash flows from investing activity	
Purchase of property and equipment	(4,891,471)
	<hr/>
Net cash used in investing activities	(4,892,634)
	<hr/>
Cash flows from financing activities	
Receipt of line of credit	3,956,000
Repayment of line of credit	(3,256,000)
Proceeds from long-term debt	5,458,600
	<hr/>
Net cash provided by financing activities	6,158,600
	<hr/>
Net increase in cash and restricted cash	1,388,979
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Cash and restricted cash, beginning	731,124
	<hr/>
Cash and restricted cash, end	<u>\$ 2,120,103</u>

See Notes to Consolidated Financial Statements.



**The Floating Hospital, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019**

**Note 1 - Organization**

The Floating Hospital, Inc. (the "Center") is a freestanding diagnostic and treatment hospital licensed under Article 28 of the New York State health law, located in Long Island City, New York. The Center provides a broad range of health services to a largely medically underserved population.

The Floating Hospital Foundation, Inc. (the "Foundation") was organized in 2002 to solicit contributions to support the Center. The Foundation began operations in 2003. The Foundation provides the Center with information and advice, promotes and encourages public understanding of the Center and solicits, invests and distributes contributions and other funds to and for the benefit of the Center.

TFHServices, LLC (the "Company") was incorporated on October 19, 2016, as a single-purpose entity to facilitate the borrowings related to a New Markets Tax Credit ("NMTC") transaction to finance the renovation costs related to property leased by the Company. The NMTC transaction closed on February 28, 2019, (see Note 10).

The Center is the sole member of the Foundation and is therefore, considered the parent company. The Foundation and the Center are members of the Company, holding 95% and 5% interest, respectively. The Foundation and the Company are collectively referred to as the Affiliates.

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

**Note 2 - Significant accounting policies**

**Basis of presentation**

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

The accompanying consolidated financial statements include the accounts of the Center and the Affiliates (collectively, the "Organization"). All intercompany transactions and account balances have been eliminated in consolidation.

**Adoption of new accounting pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, that was amended by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606)*, and *Leases (Topic 842): Effective Dates for Certain Entities*, which provided a one-year deferral of the effective date of ASU 2014-09 for certain entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020. As a result of ASU 2020-05, Topic 606 will be effective for periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. The Organization has evaluated the impact of the new standard on the consolidated financial statements and has elected for adoption effective January 1, 2019 using the modified retrospective method of transition. This ASU provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers that reflects the consideration to which the entity expects to be entitled in exchange for

**The Floating Hospital, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019**

those goods or services, as well as additional qualitative and quantitative disclosures about revenues. The Organization performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for patient service revenue net of contractual allowances and discounts and for pharmacy revenue, the Organization performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts and group pharmacy contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts and presented as reduction to patient revenue net of contractual allowances and discounts on the statement of activities and changes in net assets is now treated as a price concession that reduces the transaction price, which is reported as net patient services revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to total revenue without donor restrictions, increase in net assets without donor restrictions, or total net assets.

The Organization adopted FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. The adoption of ASU 2018-08 did not affect the Organization's consolidated statement of activities and changes in net assets.

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

The Organization adopted FASB ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance on the classification of eight specific cash flow issues. The adoption of ASU 2016-15 did not affect the Organization's consolidated statement of cash flows.

**Use of estimates**

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

**Classification of net assets**

The Organization reports information regarding its financial position and activities according to the following two categories:

## **The Floating Hospital, Inc. and Affiliates**

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

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

#### **Cash**

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions. The Organization has not experienced any losses in such accounts. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

#### **Restricted cash**

The Organization has cash the use of which shall be used directly or indirectly to facilitate the construction of leasehold improvements in certain premises located at 21-01 41<sup>st</sup> Avenue, Long Island, New York, NY 11101.

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

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

#### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term. Expenditures over \$5,000 are capitalized.

Construction-in-progress is recorded at cost. The Organization capitalizes construction, insurance and other costs during the period of construction. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

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

According to federal regulations, any property and equipment obtained through federal funds are subject to a lien by the federal government. Provided that the Center maintains its tax-exempt status and the property and equipment are used for their intended purpose, the Center is not

## The Floating Hospital, Inc. and Affiliates

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

required to reimburse the federal government. If the stated requirements are not met, the Center would be obligated to the federal government in an amount equal to the fair value of the property and equipment.

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

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

#### **Pharmacy receivable and revenue**

The Organization operates a commercial pharmacy and also participates in Section 340B of the Public Health Service Act ("PHS Act"), *Limitation on Prices of Drugs Purchased by Covered Entities*. Participation in this program allows the Organization to purchase pharmaceuticals at discounted rates for prescriptions to eligible patients. Under this 340B pharmacy program, the Organization uses third parties as its agent for the purpose of operating and managing the program and providing pharmacy services. Pharmacy revenue is generated through direct sales to the public and its agreements with third parties.

Revenue for performance obligations satisfied at a point in time is generally recognized when the prescriptions are provided to the Organization's pharmacy patients and the Center does not believe it is required to provide additional goods or services related to that sale. The Organization recognized pharmacy revenue of \$190,224 for the year ended December 31, 2019 and inventory of \$174,577 as of December 31, 2019. There was no receivable as of December 31, 2019.

Because all of its performance obligations relate to pharmacy sales contracts with a duration of less than one year, the Center has elected to apply the optional exemption provided in FASB Accounting Standards Codification ("ASC") 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The Organization's performance obligations in relation to pharmacy revenue consist primarily of pharmacy sales that occur as the patient purchases the drugs; thus, there were no unsatisfied or partially unsatisfied performance obligations at the end of the reporting period.

The Organization determines the transaction price based on standard charges for the prescriptions provided, reduced by contractual adjustments provided to third party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

## The Floating Hospital, Inc. and Affiliates

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

#### **Patient services revenue and receivables**

Patient care service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services at the Organization's outpatient centers. The Organization measures the performance obligation from the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The Organization's performance obligations consist primarily of outpatient services that occur within one day of a patient's visit; thus, there were no unsatisfied or partially unsatisfied performance obligations at the end of the reporting period.

The Organization determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicaid - Reimbursements for Medicaid services are generally paid at prospectively determined rates per visit or per covered member.

Medicare - Outpatient services are paid using prospectively determined rates.

Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per visit, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding

## **The Floating Hospital, Inc. and Affiliates**

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

alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have on the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended December 31, 2019, there was no additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years.

Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

The Organization is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Organization renders services to patients who are financially unable to pay for healthcare. The Organization provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size.

## The Floating Hospital, Inc. and Affiliates

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

The Organization maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records an explicit concession to uninsured patients in the period the services are provided based on historical experience.

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

Based on the cost of patient services, charity care and community benefit for the year ended December 31, 2019 amounted to the following:

Charity Care	\$	926,000
Community Benefit	\$	4,400,000

Such amounts determined to qualify as charity care are not reported as revenue.

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized.

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Organization does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration.

#### **Grants and contracts revenue**

Revenue from grants and contracts with resource providers such as the government and its agencies, other organizations and private foundations are accounted for either as exchange transactions or as contributions. When the resource provider receives commensurate value in return for the resources transferred to the Organization, the revenue from the grant or contract is accounted for as an exchange transaction in accordance with ASU 2014-09. For purposes of determining whether a transfer of asset is a contribution or an exchange, the Organization deems that the resource provider is not synonymous with the general public, i.e., indirect benefit received by the public as a result of the assets transferred is not deemed equivalent to commensurate value received by the resource provider. The execution of a resource provider's mission or the positive sentiment from acting as a donor is not deemed to constitute commensurate value received by a resource provider.

## **The Floating Hospital, Inc. and Affiliates**

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

Revenue from grants and contracts that are accounted for as exchange transactions is recognized when performance obligations have been satisfied. Grants and contracts awarded for the acquisition of long-lived assets are reported as nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

Grants and contract transactions where the resource provider does not receive commensurate value are accounted for as a contribution.

#### **Contributions**

Transactions where the resource provider often receive value indirectly by providing a societal benefit, although the societal benefit is not considered to be of commensurate value, are deemed to be contributions. Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where the Organization has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if the Organization fails to overcome the barrier. The Organization recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received.

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

At December 31, 2019, the Organization has received grants and contracts from governmental entities, accounted for as either exchange transactions or conditional contributions, in the aggregate amount of approximately \$2,580,000 that have not been recorded in the accompanying financial statements. These grants and contracts require the Organization to complete certain performance obligations during specified periods. If such performance obligations are not provided during the specified periods, the governmental entities are not obligated to expend the funds allotted under the contracts.

#### **Meaningful use incentives**

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that (1) meaningfully use certified electronic health record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health Act. The criteria for meaningful use incentives will be staged in three steps over the course of six years and be paid out based on a transitional schedule. Some of the Organization's providers have met the criteria for participation



## **The Floating Hospital, Inc. and Affiliates**

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

and the Organization has earned \$15,583 from the Medicaid incentive program as of December 31, 2019. This amount is included in other revenue.

#### **Donated vaccines and medicines**

Donated vaccines and medicines are recognized in the accompanying consolidated financial statements based on their fair value at the date of donation.

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

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

#### **Functional expenses**

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among program services, and general and administrative. Such allocations are determined by management on an equitable basis. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; occupancy costs and depreciation, which are allocated on a square footage basis; and supplies and telephone costs, which are allocated based on usage.

#### **Performance indicator**

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

#### **Tax status**

The Center and the Foundation were incorporated as not-for-profit corporations under the laws of the State of New York and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. The Center and the Foundation have no unrecognized tax benefits at December 31, 2019. The Center and the Foundation's federal and state income tax returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

TFHServices, LLC (the "Company") was incorporated as a limited liability company and has elected to be treated as a partnership for income tax purposes. Accordingly, the Center, who is the sole member, rather than the Company, is taxed on the Company's earnings. As of December 31, 2019, the Company had no activities and owed no income taxes as of December 31, 2019. The Company has no unrecognized tax benefits at December 31, 2019. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. The Company is subject to income tax examinations by federal, state and local tax authorities. If applicable, the Organization would recognize interest and penalties associated with uncertain tax positions as part of operating expenses and include accrued interest and penalties with the related tax liability in the consolidated statement of financial position.

#### **Subsequent events**

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

## The Floating Hospital, Inc. and Affiliates

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

#### Note 3 - Management's plans to improve operations and availability and liquidity

As indicated in the accompanying consolidated statement of financial position, the Organization has a working capital deficiency of \$379,731. Management of the Organization plans to address this deficiency through new revenue sources. The Organization expects to show a surplus as of December 31, 2020. The Organization received \$1,948,977 from a financial institution pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). In July 2020, the Organization was awarded \$3,414,678 by the New York State Department of Health Statewide Health Care Facility Transformation Program II to cover the outstanding debt obligations incurred from the construction of the new and larger main clinic in Long Island City. The Organization expects the gross pharmacy revenue to improve significantly in 2020 to \$800,000. In the current environment that contains many risks, in order to make changes to expenses as the need arises, the Organization's executive team is managing expenses on a weekly basis.

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

Financial assets at year-end	
Cash	\$ 278,371
Short-term investment	5,721
Patient services receivable	1,290,205
Grants and contracts receivable	<u>945,816</u>
Subtotal	2,520,113
Less: Net assets with donor restrictions	<u>378,206</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 2,141,907</u></u>

The Organization routinely monitors the availability of resources required to meet contractual commitments and its general operating needs, and strives to maintain liquid financial assets sufficient to cover between 30 and 60 days of general expenditures. Management continuously forecasts its future 30 and 60 days of cash flow needs and presents days' cash on hand metric as part of its financial performance ratios to the Board of Directors monthly. From time to time, subject to collection of certain accounts receivable, available financial assets may exceed 60 days' cash requirements, this excess cash is maintained as part of the Organization's operating bank balances.

For purposes of analyzing resources available to cover general expenditures to be incurred within a 12-month period, the Organization considers all expenditures related to its ongoing mission of providing health care services to the surrounding medically underserved population as well as the underlying cost of conducting and supporting these services to be general operating expenditures.

In addition to financial assets available to cover general expenditures in the next 12 months, the Organization attempts to operate within its approved balanced budget, one that is built on the Organization collecting sufficient revenue required to cover general expenditures. The Organization also has a line of credit available to meet short-term needs.

**The Floating Hospital, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
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**Note 4 - Cash and restricted cash**

The following table provides a reconciliation of cash and restricted cash reported within the consolidated statement of financial position and cash and restricted cash shown in the consolidated statement of cash flows.

Cash	\$ 278,371
Restricted cash	<u>1,841,732</u>
Total	<u>\$ 2,120,103</u>

**Note 5 - Patient services revenue and receivable**

The composition of patient services revenue by primary payor for the year ended December 31, 2019, is as follows:

Medicaid and Medicaid managed care	\$ 8,346,262
Medicare	130,384
Other third-party	426,242
Self-pay	174,208
New York State Uncompensated Care	<u>660,523</u>
Total	<u>\$ 9,737,619</u>

Revenue from patient deductibles and coinsurance are included in the preceding categories based on the primary payor. Patient services receivable consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient services receivable consist of the following at December 31, 2019:

Medicaid and Medicaid managed care	\$ 1,030,683
Medicare	78,105
Other third-party	16,655
Self Pay	1,978
New York State Uncompensated Care	<u>162,784</u>
Total	<u>\$ 1,290,205</u>

The Organization's concentration of credit risk relating to patient services receivable primarily relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts remain outstanding. The Organization recognized \$0 of patient receivable impairment or bad debt for the year ended December 31, 2019 based on patient-specific impairment events.

**The Floating Hospital, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
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**Note 6 - Grants and contracts receivable**

Grants and contracts receivable consist of the following:

Family Planning Services	\$ 221,435
New York City Administration for Children's Services:	
Health Service Program - Medical	224,994
Health Service Program - Dental	73,442
City of New York Department of Homeless Services	
Prevention Assistance and Temporary Housing (PATH)	245,744
Other	<u>180,201</u>
 Total	 <u><u>\$ 945,816</u></u>

**Note 7 - Loan receivable**

As a result of the New Market Tax Credit ("NMTC") financing structure described in Note 10, the Center is the holder of a promissory note issued by Chase NMTC TFH Investment Fund, LLC (the "Fund"), dated February 28, 2019, in the principal amount of \$4,971,400 (the "Fund Loan"). The Fund Loan is evidenced by a Fund Loan Agreement, Promissory Note and Pledge Agreement. The note bears interest at the rate of 1.384% per annum and is due in interest only payments until June 10, 2026 and matures March 31, 2035. The Fund Loan is secured by a pledge by the Fund of its 99.99% interest in Capital Fund NMTC CDE #9 LLC (the "CDE"), a "community development entity" under NMTC rules. Interest income for the year ended December 31, 2019 totaled \$66,281.

**Note 8 - Property and equipment, net**

Property and equipment, net consists of the following:

Vehicles	\$ 637,119
Furniture and equipment	2,906,700
Leasehold improvements	<u>1,871,774</u>
 Subtotal	 5,415,593
Less accumulated depreciation and amortization	<u>(4,369,758)</u>
 Subtotal	 1,045,835
Construction-in-progress	<u>6,356,462</u>
 Total	 <u><u>\$ 7,402,297</u></u>

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to the PHS or third parties.

Construction-in-progress represents construction of leasehold improvements in certain premises located at 21-01 41<sup>st</sup> Avenue, Long Island City, New York, NY 11101. The estimated total cost of the project is \$7,000,000, of which \$6,356,462 was paid as of December 31 2019. The construction is approximately 80% completed and is expected to be placed in service in October 2020. In 2019, the Organization capitalized interest expense amounting to \$78,529 as part of construction-in-progress.

**The Floating Hospital, Inc. and Affiliates**  
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Depreciation and amortization expense amounted to \$341,256 in 2019.

**Note 9 - Line of credit**

The Organization has a revolving line of credit with a bank in the amount of \$1,250,000. The line of credit matured on October 26, 2019 and was renewed with a new maturity date of October 11, 2020. The line of credit bears interest at the adjusted LIBOR rate plus the applicable margin of 6.05%. The line of credit is secured by all business assets of the Organization. The line of credit has an outstanding balance of \$1,200,000 as of December 31, 2019.

**Note 10 - Long-term debt**

Long-term debt consists of the following:

JPMorgan Chase Bank, N.A. - Project Loan - On February 28, 2019, the Organization entered into a loan agreement in the amount of \$3,500,000 with a maturity date of March 1, 2028. For the first twelve months from the date of the loan ("Initial Rate Period"), the unpaid principal balance of the loan shall accrue at a variable rate equal to the sum of the Adjusted LIBOR Rate. After termination of the Initial Rate Period on March 1, 2020, the unpaid principal balance of this loan shall accrue interest at the rate of 4.83% per annum above the Treasury Securities Rate. The loan is secured by leasehold improvements in certain premises located at 21-01 41st Avenue, Long Island City, New York, NY 11101. At December 31, 2019, the leasehold improvements in certain premises located at 21-01 41st Avenue, Long Island City, New York, NY 1110 had a carrying value of \$6,356,462. \$ 3,500,000

Capital Fund NMTC CDE #9 LLC - Promissory Note - Building Loan A - On February 28, 2019, the Organization entered into a building loan agreement in the amount of \$4,971,400, maturing on September 1, 2037 and payable in equal quarterly installments, which shall be applied entirely to interest, beginning March 1, 2019 at an interest rate of 1%. Commencing on March 1, 2026 and continuing over the remaining term of the loan, the balance of principal and all accrued interest thereon shall amortize on a level payment basis, with the first amortizing payment due in June 1, 2026. The loan is secured by a mortgage on the leasehold interest on property located at 21-01 41st Avenue, Long Island City, New York, NY 11101, assignment of leases and rents and security agreement. 4,971,400

Capital Fund NMTC CDE #9 LLC - Promissory Note - Building Loan B - On February 28, 2019, the Organization entered into a building loan agreement in the amount of \$1,068,736, maturing on September 1, 2037 and payable in equal quarterly installments, which shall be applied entirely to interest, beginning March 1, 2019 at an interest rate of 1%. Commencing on March 1, 2026 and continuing over the remaining term of the loan, the balance of principal and all accrued interest thereon shall amortize on a level payment basis, with the first amortizing payment due in June 1, 2026. The loan is secured by a mortgage on the leasehold interest on property located at 21-01 41st Avenue, Long Island City, New York, NY 11101, assignment of leases and rents and security agreement. 1,068,736

Capital Fund NMTC CDE #9 LLC - Promissory Note - Project Note C - On February 28, 2019, the Organization entered into a building loan agreement in the amount of \$889,864, maturing on September 1, 2037 and payable in equal quarterly installments, which shall be applied entirely to interest, beginning March 1, 2019 at an interest rate of 1%. Commencing on March 1, 2026 and continuing over the remaining term of the loan, the balance of principal and all accrued interest thereon shall amortize on a level payment basis, with the first amortizing payment due in June 1, 2026. The loan is secured by a mortgage on the leasehold interest on property located at 21-01 41st Avenue, Long Island City, New York, NY 11101, assignment of leases and rents and security agreement. 889,864

Subtotal 10,430,000

Less current maturities 244,753

Long-term debt \$ 10,185,247

**The Floating Hospital, Inc. and Affiliates**  
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The future scheduled maturities of long-term debt are as follows:

Year ending December 31,		
2020	\$	244,753
2021		350,028
2022		377,592
2023		407,327
2024		438,951
Thereafter		<u>8,611,349</u>
		<u>\$ 10,430,000</u>

**New markets tax credit**

The Center, TFHServices LLC (the "Company") and other participants entered into certain NMTC financing transactions with various entities for the purposes of receiving financing to facilitate the construction of leasehold improvements in certain premises located at 21-01 41<sup>st</sup> Avenue, Long Island City, New York, NY 11101 (the "property" and the "qualified purpose"). The NMTC structure consists of NMTC investors and other lenders that provide qualified equity investments ("QEIs") to a designated community development entity who, in turn, provides qualified low-income community investments ("QLICs"), often in the form of debt financing, to a qualified active low income community business ("QALICB"). The NMTC program permits taxpayers who have made QEIs in community development entities to receive a credit against their federal income taxes.

In anticipation of the NMTC financing transactions, on December 20, 2018, Chase Community Equity, LLC ("CCE"), the sole member of the Fund, made an equity contribution to the Fund in the amount of \$7,000,000 (the "Capital Contribution"). Pursuant to the Amended and Restated Operating Agreement of CDE, dated as of December 20, 2018, the Fund acquired a 99.99% membership interest in CDE by making the \$7,000,000 equity investment in CDE. This equity investment is a QEI.

On February 27, 2019, the Center borrowed \$3,500,000 from JPMorgan Chase Bank, N.A. ("JPMC") pursuant to a Line of Credit Note, Credit Agreement and Continuing Security Agreement (the "Source Loan"). The Source Loan is an obligation of the Center, payable over a 9-year term. At closing, the Center paid a \$52,500 premium to JPMC in order to be able to prepay the Source Loan, without penalty, at any time.

On February 28, 2019 (the "closing date"), the Center used the proceeds of the Source Loan, together with \$1,471,400 of its funds, to make the \$4,971,400 Fund Loan to the Fund. The Fund used \$4,761,400 of proceeds from the Fund Loan to return to CCE a portion of its Capital Contribution. After giving effect to the reimbursement to CCE, the Fund's QEI is financed by the Fund Loan of \$4,971,400 and the balance of CCE's Capital Contribution of \$2,238,600 (totaling \$7,210,000, with \$7,000,000 being the QEI and \$210,000 being used by the Fund to pay a sub-allocation fee to Community Health Center Capital Fund, Inc., an "allocatee" under NMTC rules). The QEI is intended to qualify for New Markets Tax Credits, within the meaning of Section 45D of the Code in the amount of \$2,730,000 (39% of \$7,000,000) to be claimed by the Fund.

On February 28, 2019, the closing date, CDE, as the community development entity used the \$7,000,000 QEI to make the qualified low-income community investment loans ("QLICI Loans") to

## The Floating Hospital, Inc. and Affiliates

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

the Company, as the QALICB, in the aggregate principal amount of \$6,930,000, and \$70,000 was used to pay an additional sub-allocation fee to Community Health Center Capital Fund, Inc. (the "allocatee"). The QLICI Loans are memorialized by a Project Loan Agreement, in the principal amount of \$889,864, by and among CDE, as lender, the Center, in its capacity as limited guarantor, and QALICB, as borrower, and a Building Loan Agreement, in the principal amount of \$6,040,136, by and among CDE, as lender, the Center, in its capacity as limited guarantor, and QALICB, as borrower. The QLICI Loans are evidenced by three promissory notes, as follows: Building Note A - \$4,971,400, Building Note B - \$1,068,736 and Project Note C - \$889,864 (collectively, the "Notes"). The Notes bear interest at the rate of 1.00% per annum, are interest only until June 1, 2026 and mature September 30, 2037.

#### Note 11 - Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2019, consist of contributions received from the following organizations for specific programs and activities:

	Balance January 1, 2019	Additions	Released from restrictions	Balance December 31, 2019
Volunteer Services for Children				
Health education	\$ 10,000	\$ -	\$ -	\$ 10,000
CVS - Mental health	2,600	-	2,600	-
Fund for Public Schools				
Health education training and seminars	20,000	-	5,000	15,000
Cummings Foundation				
Senior Mental Health Case Manager	19,936	-	19,936	-
The Harry and Jeanette Weinberg Foundation				
Capital renovation	750,000	-	750,000	-
Madeleine Richard - Naming opportunity	40,000	-	40,000	-
United Nations Federal Credit Union				
Mental health program for women and girls	46,380	-	46,380	-
Jewish Communal Fund - Health education	20,000	-	20,000	-
Stavros Niarchos Foundation - Capital renovation	150,000	-	150,000	-
Ford Foundation - Mental health and outreach	-	40,000	17,388	22,612
Fidelity Charitable - Health education	-	300,000	76,887	223,113
American Cancer Society - Smoking cessation	-	50,000	36,909	13,091
Lyft - Health education transportation	-	3,000	-	3,000
United Nations Federal Credit Union				
Mental health program for women and girls	-	50,000	3,610	46,390
Charles A. Frueauff Foundation, Inc. - Health education	-	25,000	25,000	-
Hyde Watson				
Children's' waiting room furniture for new clinic	-	10,000	-	10,000
Cummings Foundation - Social determinants of health	-	35,000	-	35,000
<b>Total</b>	<b>\$ 1,058,916</b>	<b>\$ 513,000</b>	<b>\$ 1,193,710</b>	<b>\$ 378,206</b>

**The Floating Hospital, Inc. and Affiliates**

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

**Note 12 - DHHS grants**

For the year ended December 31, 2019, the Organization recognized grant revenue from the DHHS as follows:

<u>Grant number</u>	<u>Grant period</u>	<u>Total grant</u>	<u>Revenue recognized</u>
6 H80CS00268-17-06	1/1/2019 - 12/31/2019	\$ 4,459,395	\$ 4,331,247
1 FPHA006355-01-00	9/1/2018 - 3/31/2019	400,000	275,837
6 FPHA006432-01-01	4/1/2019 - 3/31/2020	841,900	518,666
Total			<u>\$ 5,125,750</u>

**Note 13 - Contract services and other grants**

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

City of New York Department of Homeless Services Prevention Assistance and Temporary Housing (PATH)	\$ 957,786
City of New York Department of Health and Mental Hygiene Vaccines for Children Program	403,654
New York Administration for Children's Services Health Service Program - Medical	2,891,731
Health Service Program - Dental	218,091
Other	124,185
Total	<u>\$ 4,595,447</u>

**Note 14 - Pension plan**

The Organization maintains a defined contribution plan covering substantially all of its employees meeting certain eligibility requirements. Contributions to the plan are based on a percentage of salaries. Pension expense amounted to \$275,341 for the year ended December 31, 2019.

**Note 15 - Commitments and contingencies**

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

The Organization maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has



## The Floating Hospital, Inc. and Affiliates

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

the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The Organization purchases professional and general liability insurance to cover medical malpractice claims in excess of the FTCA coverage. There are no known claims or incidents that may result in the assertion of additional claims arising from services provided to patients as of December 31, 2019.

The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Organization believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Organization could be held responsible for refunding the amount in question.

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

Effective December 1, 2016, the Center entered into an agreement to lease premises that will be the site of the Center's primary health center and administrative offices. The agreement stipulates the Company will assume control and rent payments will commence after a rent abatement period that is still under negotiation with the landlord due to extensive delays in completing the renovations. The Center has guaranteed the payment and performance of all obligations of the Company under the lease agreement.

The Organization entered into various lease agreements for the use of space which have been classified as operating leases and expire on various dates through to 2026. As of December 31, 2019, the Organization is obligated to make future minimum payments in each of the subsequent five years and thereafter as follows:

2020	\$	35,050
2021		12,550
2022		12,550
2023		13,303
2024		13,303
Thereafter		<u>23,880</u>
Total	\$	<u>110,636</u>

Total rental expense under operating leases amounted to \$101,844 in 2019. Some of the Organization's current property leases are under month-to-month arrangements.

**The Floating Hospital, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
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**Note 16 - Subsequent events**

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

On May 6, 2020 (the "funding date"), the Organization received a loan of \$1,948,977 from a financial institution pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Under the PPP, there is a deferment period that commences on the funding date and ends six months from the funding date. No principal or interest payments will be due prior to the end of the deferment period. The Organization shall apply to the financial institution for loan forgiveness if certain conditions are met. If the Small Business Administration ("SBA") confirms full and complete forgiveness of the unpaid balance of the loan, and reimburses the financial institution for the total outstanding balance, principal and interest, the Organization's obligations under the loan will be deemed fully satisfied and paid in full. If the SBA does not confirm forgiveness of the loan, or only partly confirms forgiveness of the loan, or the Organization fails to apply for loan forgiveness, the Organization will be obligated to repay to the financial institution the total outstanding balance remaining under the loan, including principal and interest. The interest rate is a fixed rate of one percent per annum.

In July 2020, the Organization was awarded \$3,414,678 by the New York State Department of Health Statewide Health Care Facility Transformation Program II to cover the outstanding debt obligations incurred from the construction of the new and larger main clinic in Long Island City.

## **Supplementary Information**

## The Floating Hospital, Inc. and Affiliates

### Consolidating Statement of Financial Position December 31, 2019

	The Floating Hospital, Inc.	The Floating Hospital Foundation, Inc.	TFHServices, LLC	Eliminations	Total
<u>Assets</u>					
Current assets					
Cash	\$ 30,614	\$ 64,676	\$ 183,081	\$ -	\$ 278,371
Equity investment in TFHServices LLC	16,856	320,261	-	(337,117)	-
Short-term investment	-	5,721	-	-	5,721
Patient services receivable	1,290,205	-	-	-	1,290,205
Grants and contracts receivable	910,591	35,225	-	-	945,816
Prepaid expenses and other receivables	393,577	503	47,375	-	441,455
Due from affiliates	880,346	-	-	(880,346)	-
Total current assets	<u>3,522,189</u>	<u>426,386</u>	<u>230,456</u>	<u>(1,217,463)</u>	<u>2,961,568</u>
Noncurrent assets					
Restricted cash	-	-	1,841,732	-	1,841,732
Loan receivable	4,971,400	-	-	-	4,971,400
Property and equipment, net	1,033,045	12,790	6,356,462	-	7,402,297
Security deposits	105,422	-	47,375	-	152,797
Total noncurrent assets	<u>6,109,867</u>	<u>12,790</u>	<u>8,245,569</u>	<u>-</u>	<u>14,368,226</u>
Total assets	<u>\$ 9,632,056</u>	<u>\$ 439,176</u>	<u>\$ 8,476,025</u>	<u>\$ (1,217,463)</u>	<u>\$ 17,329,794</u>
<u>Liabilities and Net Assets</u>					
Current liabilities					
Line of credit	\$ 1,200,000	\$ -	\$ -	\$ -	\$ 1,200,000
Accounts payable and accrued expenses	717,546	84,298	358,967	-	1,160,811
Accrued compensation	708,353	27,382	-	-	735,735
Current maturities of long-term debt	244,753	-	-	-	244,753
Due to affiliates	-	96,686	783,660	(880,346)	-
Total current liabilities	<u>2,870,652</u>	<u>208,366</u>	<u>1,142,627</u>	<u>(880,346)</u>	<u>3,341,299</u>
Noncurrent liabilities					
Long-term debt, less current maturities	<u>3,255,247</u>	<u>-</u>	<u>6,930,000</u>	<u>-</u>	<u>10,185,247</u>
Total liabilities	<u>6,125,899</u>	<u>208,366</u>	<u>8,072,627</u>	<u>(880,346)</u>	<u>13,526,546</u>
Commitments and contingencies					
Net assets					
Without donor restrictions	3,478,557	(119,796)	66,281	-	3,425,042
With donor restrictions	27,600	350,606	-	-	378,206
Members' equity	-	-	337,117	(337,117)	-
Total net assets	<u>3,506,157</u>	<u>230,810</u>	<u>403,398</u>	<u>(337,117)</u>	<u>3,803,248</u>
Total liabilities and net assets	<u>\$ 9,632,056</u>	<u>\$ 439,176</u>	<u>\$ 8,476,025</u>	<u>\$ (1,217,463)</u>	<u>\$ 17,329,794</u>

See Independent Auditor's Report.

**The Floating Hospital, Inc. and Affiliates**  
**Consolidating Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2019**

	The Floating Hospital, Inc.			The Floating Hospital Foundation, Inc.			TFHServices, LLC	Eliminations	Total		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total			Without donor restrictions	With donor restrictions	Total
<b>Revenue</b>											
Patient services, net of contractual allowances and discounts	\$ 9,737,619	\$ -	\$ 9,737,619	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,737,619	\$ -	\$ 9,737,619
DHHS grants	5,125,750	-	5,125,750	-	-	-	-	-	5,125,750	-	5,125,750
Contract services and other grants	4,595,447	-	4,595,447	-	-	-	-	-	4,595,447	-	4,595,447
Contributions	1,077,919	25,000	1,102,919	22,807	488,000	510,807	-	-	1,100,726	513,000	1,613,726
Donated medicines	701,342	-	701,342	-	-	-	-	-	701,342	-	701,342
Pharmacy revenue	190,224	-	190,224	-	-	-	-	-	190,224	-	190,224
Other	9,766	-	9,766	967,646	-	967,646	66,281	-	1,043,693	-	1,043,693
Net assets released from restrictions	116,316	(116,316)	-	1,077,394	(1,077,394)	-	-	-	1,193,710	(1,193,710)	-
<b>Total revenue</b>	<b>21,554,383</b>	<b>(91,316)</b>	<b>21,463,067</b>	<b>2,067,847</b>	<b>(589,394)</b>	<b>1,478,453</b>	<b>66,281</b>	<b>-</b>	<b>23,688,511</b>	<b>(680,710)</b>	<b>23,007,801</b>
<b>Expenses</b>											
Salaries and benefits	14,367,375	-	14,367,375	129,835	-	129,835	-	-	14,497,210	-	14,497,210
Other than personnel services	6,752,129	-	6,752,129	2,081,104	-	2,081,104	500	-	8,833,733	-	8,833,733
Interest	20,630	-	20,630	16,515	-	-	-	-	37,145	-	37,145
<b>Total expenses</b>	<b>21,140,134</b>	<b>-</b>	<b>21,140,134</b>	<b>2,227,454</b>	<b>-</b>	<b>2,210,939</b>	<b>500</b>	<b>-</b>	<b>23,368,088</b>	<b>-</b>	<b>23,368,088</b>
Changes in net assets before depreciation and amortization	414,249	(91,316)	322,933	(159,607)	(589,394)	(732,486)	65,781	-	320,423	(680,710)	(360,287)
Depreciation and amortization	340,418	-	340,418	838	-	838	-	-	341,256	-	341,256
Changes in net assets / members' equity	73,831	(91,316)	(17,485)	(160,445)	(589,394)	(733,324)	65,781	-	(20,833)	(680,710)	(701,543)
Net assets / members' equity											
Beginning	3,404,726	118,916	3,523,642	40,649	940,000	980,649	500	-	3,445,875	1,058,916	4,504,791
End	\$ 3,478,557	\$ 27,600	\$ 3,506,157	\$ (119,796)	\$ 350,606	\$ 247,325	\$ 66,281	\$ -	\$ 3,425,042	\$ 378,206	\$ 3,803,248

See Independent Auditor's Report.

**The Floating Hospital, Inc. and Affiliates**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2019**

Federal grantor/ pass-through grantor/program or cluster title	Federal CFDA number	Pass-through grantor's number	Passed through to subrecipients	Total expenditures
U.S. Department of Health and Human Services:				
Direct programs:				
Health Centers Cluster:				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care)	93.224	N/A	\$ -	\$ 1,146,402
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	<u>3,184,845</u>
Total - Health Centers Cluster			-	4,331,247
Family Planning Services	93.217	N/A	-	<u>794,503</u>
Total U.S. Department of Health and Human Services			-	<u>5,125,750</u>
Passed through City of New York Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements	93.268	Not Available	-	<u>403,654</u>
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 5,529,404</u>

See Notes to Schedule of Expenditures of Federal Awards.

## The Floating Hospital, Inc. and Affiliates

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

#### **Note 1 - Basis of presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of The Floating Hospital, Inc. (the "Center") under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Center.

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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance because it is not applicable.

#### **Note 3 - Nonmonetary assistance**

Nonmonetary assistance of \$403,654 is reported in the Schedule at the fair value of the vaccines received under the Immunization Cooperative Agreements.

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

To the Board of Directors  
The Floating Hospital, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Floating Hospital, Inc. (the "Center"), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 5, 2020. The financial statements of The Floating Hospital Foundation, Inc. and TFHServices, LLC (the "Affiliates") were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Affiliates.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

*CohnReznick LLP*

New York, New York  
August 5, 2020

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

To the Board of Directors  
The Floating Hospital, Inc.

Report on Compliance for Each Major Federal Program

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

*Management's Responsibility*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

*Opinion on Each Major Federal Program*

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

## Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



New York, New York  
August 5, 2020

**The Floating Hospital, Inc. and Affiliates**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2019**

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

Financial Statements:

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_yes       no
- Significant deficiency(ies) identified? \_\_yes       none reported

Noncompliance material to financial statements noted?

\_\_yes       no

Federal Awards:

Internal control over major federal programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_ yes       no

Identification of major federal programs:

CFDA Number(s)

Name of Federal Program

93.224

U.S. Department of Health and Human Services:  
 Health Centers Cluster:  
 Health Center Program (Community Health Centers, Migrant Health Centers Health Care for the Homeless and Public Housing Primary Care)

93.527

Grants for New and Expanded Services under the Health Center Program

93.217

Family Planning Services

Dollar threshold used to distinguish between type A and B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes      \_\_\_ no

**The Floating Hospital, Inc. and Affiliates**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2019**

**Section II - Financial Statement Findings**

None

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

None



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