

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

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

**December 31, 2015**

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# The Floating Hospital, Inc. and Affiliate

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## Independent Auditor's Report

To the Board of Directors  
The Floating Hospital, Inc.

### *Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of The Floating Hospital, Inc. and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2015, 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 Affiliate 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, 2015, 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 19 and 20 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 (CFR) 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 July 28, 2016 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



New York, New York  
July 28, 2016

**The Floating Hospital, Inc. and Affiliate**  
**Consolidated Statement of Financial Position**  
**December 31, 2015**

Assets

Current assets:	
Cash	\$ 339,100
Patient services receivable	1,762,134
Grants and contracts receivable	635,291
Prepaid expenses and other receivables	550,063
Total current assets	<u>3,286,588</u>
Property and equipment, net	1,182,847
Security deposits	<u>85,012</u>
Total assets	<u><u>\$ 4,554,447</u></u>

Liabilities and Net Assets

Current liabilities:	
Line of credit	\$ 350,000
Accounts payable and accrued expenses	469,201
Accrued compensation	615,890
Refundable advances	13,688
Total current liabilities	<u>1,448,779</u>
Commitments and contingencies	
Net assets:	
Unrestricted	3,053,468
Temporarily restricted	52,200
Total net assets	<u>3,105,668</u>
Total liabilities and net assets	<u><u>\$ 4,554,447</u></u>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>Revenue:</b>			
Patient services (net of contractual allowances and discounts)	\$ 9,075,002	\$ -	\$ 9,075,002
DHHS grants	3,142,246	-	3,142,246
Contract services and other grants	5,963,980	-	5,963,980
Contributions (including unrestricted special events revenue of \$122,821)	209,090	87,200	296,290
Donated medicines	1,338,336	-	1,338,336
Other	220,488	-	220,488
Net assets released from restrictions	54,500	(54,500)	-
	<b>20,003,642</b>	<b>32,700</b>	<b>20,036,342</b>
<b>Expenses:</b>			
Salaries and benefits	13,873,141	-	13,873,141
Other than personnel services	6,211,037	-	6,211,037
Interest	32,176	-	32,176
	<b>20,116,354</b>	<b>-</b>	<b>20,116,354</b>
Income (loss) before depreciation and amortization	(112,712)	32,700	(80,012)
Depreciation and amortization	267,941	-	267,941
Changes in net assets	(380,653)	32,700	(347,953)
<b>Net assets:</b>			
Beginning of year	3,434,121	19,500	3,453,621
End of year	<b>\$ 3,053,468</b>	<b>\$ 52,200</b>	<b>\$ 3,105,668</b>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Functional Expenses  
Year Ended December 31, 2015**

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 9,252,208	\$ 1,274,492	\$ 155,974	\$ 10,682,674
Fringe benefits and payroll taxes	2,757,639	388,765	44,063	3,190,467
Consultants and contractual services	360,894	142,383	71,617	574,894
Professional fees	139,135	162,739	4,537	306,411
Consumable supplies	2,417,265	53,842	1,185	2,472,292
Healthcare consultants	369,420	-	-	369,420
Occupancy	554,365	61,448	200	616,013
Laboratory fees	206,729	-	-	206,729
Insurance	192,088	21,797	2,896	216,781
Repairs and maintenance	173,485	32,369	1,951	207,805
Equipment rental	53,519	8,805	-	62,324
Dues and subscriptions	29,065	4,931	1,994	35,990
Telephone	189,438	23,737	-	213,175
Travel, conferences and meetings	86,512	27,098	81	113,691
Patient transportation	121,924	-	-	121,924
Data processing	194,554	30,014	464	225,032
Printing, publications and postage	16,534	19,642	3,245	39,421
Public information	25,589	-	13,838	39,427
Special events	-	-	105,446	105,446
Interest	7,029	25,147	-	32,176
Other	120,506	160,434	3,322	284,262
	<u>17,267,898</u>	<u>2,437,643</u>	<u>410,813</u>	<u>20,116,354</u>
Depreciation and amortization	<u>241,147</u>	<u>26,794</u>	<u>-</u>	<u>267,941</u>
Total functional expenses	<u><u>\$ 17,509,045</u></u>	<u><u>\$ 2,464,437</u></u>	<u><u>\$ 410,813</u></u>	<u><u>\$ 20,384,295</u></u>

See Notes to Consolidated Financial Statements.

## The Floating Hospital, Inc. and Affiliate

### Consolidated Statement of Cash Flows Year Ended December 31, 2015

Cash flows from operating activities:	
Cash received from patient services	\$ 8,494,054
Cash received from DHHS Grants	3,142,246
Cash received from contract services and other grants	5,988,456
Cash received from contributions	296,290
Cash received from other	217,730
Cash paid to employees	(13,892,725)
Cash paid to vendors	(4,734,748)
Cash paid for interest	(32,176)
Net cash used in operating activities	<u>(520,873)</u>
Cash flow from investing activity - purchase of property and equipment	<u>(162,735)</u>
Cash flows from financing activities:	
Receipt of line of credit	900,000
Repayment of line of credit	(550,000)
Net cash provided by financing activities	<u>350,000</u>
Net decrease in cash	(333,608)
Cash, beginning of year	<u>672,708</u>
Cash, end of year	<u>\$ 339,100</u>
Reconciliation of change in net assets to net cash used in operating activities:	
Changes in net assets	\$ (347,953)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation and amortization	267,941
Changes in operating assets and liabilities:	
Patient services receivable	(580,948)
Grants and contracts receivable	5,682
Prepaid expenses and other receivables	(143,015)
Security deposits	(2,758)
Accounts payable and accrued expenses	(17,467)
Accrued compensation	(19,584)
Refundable advances	317,229
Net cash used in operating activities	<u>\$ (520,873)</u>

See Notes to Consolidated Financial Statements.



**The Floating Hospital, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015**

**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 "Affiliate" or "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.

The Center is the sole member of the Foundation and is, therefore, considered the parent company. The accompanying consolidated financial statements include the accounts of the Center and Foundation (collectively, the "Organization"). All intercompany transactions and account balances have been eliminated in consolidation.

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.

**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 three categories:

Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Organization and an outside party other than a donor or grantor.

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

### **Notes to Consolidated Financial Statements December 31, 2015**

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are recorded as net assets released from restrictions. Temporarily restricted net assets amounted to \$52,200 at December 31, 2015.

Permanently restricted net assets are assets which are not expendable. Income and/or appreciation on the investments of these net assets are either unrestricted or temporarily restricted based on donor-imposed stipulations or by operation of law. There are no permanently restricted net assets at December 31, 2015.

#### **Cash and cash equivalents**

The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. The Organization has not experienced any losses in such accounts. At December 31, 2015, the Organization's cash balances exceeded Federally-insured limits by \$228,000. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

#### **Patient services receivable**

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off against the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

#### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is 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. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related

**The Floating Hospital, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015**

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 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.

**Contributions**

Contributions are recorded at fair value when received or pledged. Amounts are recorded as temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as unrestricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions.

**Concentrations of credit risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents, patient services receivable and grants and contracts receivable. The Organization places its cash and cash equivalents with high-quality financial institutions. 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. Patient services receivable credit risk is limited because the receivables are reported at their outstanding unpaid balances reduced by an allowance for doubtful accounts when applicable. The Organization estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends. 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

**The Floating Hospital, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015**

not conform to the amount billed. The Organization considers all grants and contracts as collectible.

**Patient services revenue**

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis, and are adjusted in future periods as final settlements are determined.

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable care deducted to arrive at gross self-pay revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue before a provision for bad debts.

**Charity care and community benefit**

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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

Based on the cost of patient services, charity care approximated \$850,000 in 2015, while community benefits approximated \$3,657,000 in 2015.

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

### **Notes to Consolidated Financial Statements December 31, 2015**

#### **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 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 ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of the next six years and be paid out based on a transitional schedule. Some of the Center's providers have met the criteria for participation and the Center has earned \$212,500 from the Medicaid incentive program as of December 31, 2015. This amount is included in other revenue.

#### **Grants and contracts**

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At December 31, 2015, the Organization has received conditional grants and contracts from governmental entities in the aggregate amount of \$15,166,614 that have not been recorded in the accompanying consolidated financial statements. These grants and contracts require the Organization to provide certain services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

#### **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**

Expenses are charged to program, general and administrative or fundraising based on a combination of specific identification and allocation by management.

#### **Performance indicator**

The consolidated statement of activities and changes in net assets includes changes in unrestricted net assets as the performance indicator. Change in temporarily restricted net assets is excluded from the performance indicator.

## The Floating Hospital, Inc. and Affiliate

### Notes to Consolidated Financial Statements December 31, 2015

#### 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, 2015. The Center and the Foundation's Federal and state income tax returns prior to fiscal year 2012 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

#### Subsequent events

The Organization has evaluated subsequent events through July 28, 2016, which is the date the consolidated financial statements were available to be issued.

#### Note 3 - Patient services receivable

Patient services receivable consist of the following:

Medicaid and Medicaid managed care	\$ 1,583,226
Medicare	45,779
Other third party	14,500
New York State Uncompensated Care	<u>118,629</u>
Total	<u>\$ 1,762,134</u>

Patient services receivable are reduced by an allowance for doubtful accounts when applicable. In evaluating the collectability of patient services receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates provided by the Center's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

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

**Notes to Consolidated Financial Statements  
December 31, 2015**

The Center had no outstanding receivables from self-pay patients at December 31, 2015; hence, there is no allowance for doubtful accounts as of December 31, 2015. There were also no write-offs for the year ended December 31, 2015. The Center has not changed its charity care or uninsured discount policies during fiscal year 2015. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

**Note 4 - Grants and contracts receivable**

Grants and contracts receivable consist of the following:

New York City Administration for Children's Services:	
Health Service Program - Medical	\$ 281,784
Health Service Program - Dental	8,304
New York State Department of Health:	
Vital Access Program and Safety Net Provider	222,517
SCO Family of Services, Inc.	139
DHHS - Consolidated Health Centers	77,043
Other	45,504
	<hr/>
Total	\$ 635,291

**Note 5 - Property and equipment, net**

Property and equipment, net consists of the following:

Vehicles	\$ 390,944
Furniture and equipment	2,403,865
Leasehold improvements	1,523,311
	<hr/>
Subtotal	4,318,120
Less accumulated depreciaton and amortization	(3,179,282)
	<hr/>
	1,138,838
Construction-in-progress	44,009
	<hr/>
Total	\$ 1,182,847

Depreciation and amortization expense amounted to \$267,941 in 2015. 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.

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

**Notes to Consolidated Financial Statements  
December 31, 2015**

**Note 6 - Refundable advances**

As of December 31, 2015, refundable advances consist of the unrecouped advances received from the City of New York Department of Homeless Services – PATH Contract amounting to \$13,688.

**Note 7 - Line of credit**

The Center has a revolving line of credit with a bank in the amount of \$1,000,000, which expires on August 27, 2016 and bears interest at a floating rate equal to LIBOR plus 4.61%. The line of credit is secured by all business assets of the Center. At December 31, 2015, the line of credit has an outstanding balance of \$350,000.

**Note 8 - Temporarily restricted net assets**

Temporarily restricted net assets at December 31, 2015 consist of contributions received from the following organizations for specific programs and activities.

	Balance 12/31/2014	2015 Additions	Released From Restrictions	Balance 12/31/2015
Ronald McDonald House of Charities - Diabetes Prevention for Children in Public Housing	\$ 12,000	\$ -	\$ 12,000	\$ -
The Hyde and Watson Foundation - Capital Project – Purchase of Specialized Equipment	7,500	7,200	7,500	7,200
United Nations Federal Credit Union Mental Health Program for Women and Girls	-	50,000	25,000	25,000
Healthy Smiles Healthy Children Improve Children's Access to Dental	-	20,000	-	20,000
Stephen and Mary Birch Foundation Mental Health for Children	-	10,000	10,000	-
<b>Totals</b>	<b>\$ 19,500</b>	<b>\$ 87,200</b>	<b>\$ 54,500</b>	<b>\$ 52,200</b>

**Note 9 - Patient services revenue (net of contractual allowances and discounts)**

The Center recognizes patient services revenue associated with services provided to patients who have Medicaid, Medicare, third-party payor and managed care plans coverage on the basis of contractual rates for services rendered. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. Charity care services are computed using a sliding fee scale based on patient income and family size. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual



**The Floating Hospital, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015**

allowances and discounts recognized in the period from these major payor sources, is as follows:

Medicaid and Medicaid managed care	\$ 8,315,186
Medicare	121,078
Other third party	120,023
Self-pay	117,284
New York State Uncompensated Care	401,431
Total	\$ 9,075,002

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

**Note 10 - DHHS grants**

For the year ended December 31, 2015, the Center recognized grant revenue from the DHHS as follows:

Grant Number	Grant Period	Total Grant	Revenue Recognized
6 H80CS00268-13-10	11/1/2014 - 12/31/2015	\$ 4,095,495	\$ 3,142,246

**Note 11 - Contract services and other grants**

For the year ended December 31, 2015, contract services and other grants consist of the following:

City of New York Department of Homeless Services:	
PATH Contract	\$ 811,020
City of New York Department of Health and Mental Hygiene:	
Vaccines for Children Program	298,435
SCO Family of Services, Inc.	179,004
New York Administration for Children's Services:	
Health Service Program - Medical	4,198,855
Health Service Program - Dental	177,007
New York State Department of Health:	
Vital Assistance Program	222,517
Other	77,142
Total	\$ 5,963,980

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

### **Notes to Consolidated Financial Statements December 31, 2015**

#### **Note 12 - 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 \$286,333 for the year ended December 31, 2015.

#### **Note 13 - Commitments and contingencies**

The Center 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 Center could be held responsible for reimbursing the agencies for the amounts in question.

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

The Center 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, 2015.

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 Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amount in question.

**The Floating Hospital, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015**

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.

The Center leases various facilities. Rent expense for the year ended December 31, 2015 was \$495,503. The facilities are under noncancelable operating leases requiring future payment of \$2,757 in 2016.

**The Floating Hospital, Inc. and Affiliate**  
**Consolidating Statement of Financial Position**  
**December 31, 2015**

	The Floating Hospital, Inc.	The Floating Hospital Foundation, Inc.	Eliminations	Total
<u>Assets</u>				
Current assets:				
Cash	\$ 201,646	\$ 137,454	\$ -	\$ 339,100
Patient services receivable	1,762,134	-	-	1,762,134
Grants and contracts receivable	635,291	-	-	635,291
Prepaid expenses and other receivables	536,874	13,189	-	550,063
Due from affiliate	-	764,882	(764,882)	-
Total current assets	<u>3,135,945</u>	<u>915,525</u>	<u>(764,882)</u>	<u>3,286,588</u>
Property and equipment, net	1,182,847	-	-	1,182,847
Security deposits	<u>85,012</u>	<u>-</u>	<u>-</u>	<u>85,012</u>
Total assets	<u>\$ 4,403,804</u>	<u>\$ 915,525</u>	<u>\$ (764,882)</u>	<u>\$ 4,554,447</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Line of credit	\$ 350,000	\$ -	\$ -	\$ 350,000
Accounts payable and accrued expenses	469,201	-	-	469,201
Accrued compensation	615,890	-	-	615,890
Refundable advances	13,688	-	-	13,688
Due to affiliate	764,882	-	(764,882)	-
Total current liabilities	<u>2,213,661</u>	<u>-</u>	<u>(764,882)</u>	<u>1,448,779</u>
Net assets:				
Unrestricted	2,137,943	915,525	-	3,053,468
Temporarily restricted	52,200	-	-	52,200
Total net assets	<u>2,190,143</u>	<u>915,525</u>	<u>-</u>	<u>3,105,668</u>
Total liabilities and net assets	<u>\$ 4,403,804</u>	<u>\$ 915,525</u>	<u>\$ (764,882)</u>	<u>\$ 4,554,447</u>

See Independent Auditor's Report.

**The Floating Hospital, Inc. and Affiliate**  
**Consolidating Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2015**

	The Floating Hospital, Inc.			The Floating Hospital Foundation, Inc.			Eliminations	Total		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total		Unrestricted	Temporarily Restricted	Total
<b>Revenue:</b>										
Patient services, net	\$ 9,075,002	\$ -	\$ 9,075,002	\$ -	\$ -	\$ -	\$ -	\$ 9,075,002	\$ -	\$ 9,075,002
DHHS grants	3,142,246	-	3,142,246	-	-	-	-	3,142,246	-	3,142,246
Contract services and other grants	5,963,980	-	5,963,980	-	-	-	-	5,963,980	-	5,963,980
Contributions	191,235	87,200	278,435	67,855	-	67,855	(50,000)	209,090	87,200	296,290
Donated medicines	1,338,336	-	1,338,336	-	-	-	-	1,338,336	-	1,338,336
Other	219,732	-	219,732	756	-	756	-	220,488	-	220,488
Net assets released from restrictions	42,500	(42,500)	-	12,000	(12,000)	-	-	54,500	(54,500)	-
Total revenue	<u>19,973,031</u>	<u>44,700</u>	<u>20,017,731</u>	<u>80,611</u>	<u>(12,000)</u>	<u>68,611</u>	<u>(50,000)</u>	<u>20,003,642</u>	<u>32,700</u>	<u>20,036,342</u>
<b>Expenses:</b>										
Salaries and benefits	13,873,141	-	13,873,141	-	-	-	-	13,873,141	-	13,873,141
Other than personnel services	6,205,559	-	6,205,559	55,478	-	55,478	(50,000)	6,211,037	-	6,211,037
Interest	32,176	-	32,176	-	-	-	-	32,176	-	32,176
Total expenses	<u>20,110,876</u>	<u>-</u>	<u>20,110,876</u>	<u>55,478</u>	<u>-</u>	<u>55,478</u>	<u>(50,000)</u>	<u>20,116,354</u>	<u>-</u>	<u>20,116,354</u>
Income (loss) before depreciation and amortization	(137,845)	44,700	(93,145)	25,133	(12,000)	13,133	-	(112,712)	32,700	(80,012)
Depreciation and amortization	267,941	-	267,941	-	-	-	-	267,941	-	267,941
Changes in net assets	(405,786)	44,700	(361,086)	25,133	(12,000)	13,133	-	(380,653)	32,700	(347,953)
<b>Net assets:</b>										
Beginning of year	2,543,729	7,500	2,551,229	890,392	12,000	902,392	-	3,434,121	19,500	3,453,621
End of year	<u>\$ 2,137,943</u>	<u>\$ 52,200</u>	<u>\$ 2,190,143</u>	<u>\$ 915,525</u>	<u>\$ -</u>	<u>\$ 915,525</u>	<u>\$ -</u>	<u>\$ 3,053,468</u>	<u>\$ 52,200</u>	<u>\$ 3,105,668</u>

See Independent Auditor's Report.

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

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2015**

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 Center Cluster:				
Consolidated Health Centers	93.224	N/A	\$ -	\$ 1,356,235
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	1,786,011
Total - Health Center Cluster			-	3,142,246
Passed through City of New York Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements	93.268	Not Available	-	298,435
Total Federal awards			\$ -	\$ 3,440,681

See Notes to Schedule of Expenditures of Federal Awards.

## The Floating Hospital, Inc. and Affiliate

### Notes to Schedule of Expenditures of Federal Awards December 31, 2015

#### **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, 2015. 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* (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, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 - Relationship to Basic Consolidated Financial Statements**

Federal expenditures are reported on the consolidated statement of activities and changes in net assets. In certain programs, the expenditures reported in the basic consolidated financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations or agency-matching or in-kind contributions which are not included in the consolidated statement of activities and changes in net assets.

#### **Note 4 - Nonmonetary assistance**

Nonmonetary assistance is reported in the Schedule at the fair market value of the vaccines received. The total Federal share of vaccines administered by the Center amounted to \$298,435 and is included in the Schedule.

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

To the Board of Directors  
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. and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2015, 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 July 28, 2016. The financial statements of the Affiliate were not audited in accordance with *Government Auditing Standards*.

*Internal Control Over Financial Reporting*

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

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

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



### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

New York, New York  
July 28, 2016

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 Organization's major Federal programs for the year ended December 31, 2015. 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* (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, 2015.

### *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  
July 28, 2016

The Floating Hospital, Inc. and Affiliate

Schedule of Findings and Questioned Costs
Year Ended December 31, 2015

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?
Significant deficiency(ies) identified?

yes no
yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards:

Internal control over major Federal programs:

- Material weakness(es) identified?
Significant deficiency(ies) identified?

yes no
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
93.527

U.S. Department of Health and Human Services:
Health Center Cluster:
Consolidated Health Centers
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program

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

\$750,000

Auditee qualified as low-risk auditee?

yes no

**The Floating Hospital, Inc. and Affiliate**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2015**

**Section II - Financial Statement Findings**

None

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

None

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

**Schedule of Prior Year's Findings  
Year Ended December 31, 2015**

There were no findings noted in the prior year.

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