

**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, 2017**

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**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

# 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, 2017, 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, 2017, 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 20 and 21 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 August 16, 2018 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 16, 2018

**The Floating Hospital, Inc. and Affiliates**  
**Consolidated Statement of Financial Position**  
**December 31, 2017**

Assets

Current assets		
Cash	\$	296,982
Short term investment		4,558
Patient services receivable		1,679,299
Grants and contracts receivable		1,319,546
Prepaid expenses and other receivables		495,763
		495,763
Total current assets		3,796,148
Property and equipment, net		1,564,112
Security deposits		137,387
		137,387
Total assets	\$	5,497,647

Liabilities and Net Assets

Current liabilities		
Line of credit	\$	992,984
Accounts payable and accrued expenses		1,088,454
Accrued compensation		632,828
Due to third party payor		72,272
		72,272
Total current liabilities		2,786,538
Commitments and contingencies		
Net assets		
Unrestricted		2,530,220
Temporarily restricted		180,889
		180,889
Total net assets		2,711,109
Total liabilities and net assets	\$	5,497,647

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, 2017**

	Unrestricted	Temporarily restricted	Total
Revenue			
Patient services (net of contractual allowances and discounts)	\$ 8,774,484	\$ -	\$ 8,774,484
DHHS grants	3,909,560	-	3,909,560
Contract services and other grants	6,212,693	-	6,212,693
Contributions (including unrestricted special events revenue of \$432,434)	491,585	360,435	852,020
Donated medicines	332,887	-	332,887
Other	167,090	-	167,090
Net assets released from restrictions	378,727	(378,727)	-
<b>Total revenue</b>	<b>20,267,026</b>	<b>(18,292)</b>	<b>20,248,734</b>
Expenses			
Salaries and benefits	14,555,288	-	14,555,288
Other than personnel services	6,082,259	-	6,082,259
Interest	35,376	-	35,376
<b>Total expenses</b>	<b>20,672,923</b>	<b>-</b>	<b>20,672,923</b>
Changes in net assets before depreciation and amortization	(405,897)	(18,292)	(424,189)
Depreciation and amortization	282,371	-	282,371
Changes in net assets	(688,268)	(18,292)	(706,560)
Net assets			
Beginning of year	3,218,488	199,181	3,417,669
End of year	\$ 2,530,220	\$ 180,889	\$ 2,711,109

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Functional Expenses  
Year Ended December 31, 2017**

	Program services	General and administrative	Fundraising and development	Total
Salaries and wages	\$ 9,475,373	\$ 1,647,566	\$ 273,518	\$ 11,396,457
Fringe benefits and payroll taxes	2,647,818	446,281	64,732	3,158,831
Consultants and contractual services	486,573	211,105	94,447	792,125
Professional fees	219,105	271,567	170	490,842
Consumable supplies	1,500,912	49,126	230,164	1,780,202
Healthcare consultants	561,057	-	-	561,057
Occupancy	567,327	101,338	-	668,665
Laboratory fees	23,097	-	-	23,097
Insurance	263,816	78,238	3,363	345,417
Repairs and maintenance	237,477	2,996	-	240,473
Equipment rental	71,112	12,499	109	83,720
Dues and subscriptions	10,880	13,574	514	24,968
Telephone	140,722	26,852	315	167,889
Travel, conferences and meetings	20,010	21,607	2,611	44,228
Patient transportation	111,018	-	-	111,018
Data processing	199,174	43,755	7,043	249,972
Printing, publications and postage	11,995	22,273	35,706	69,974
Public information	39,250	-	25,964	65,214
Special events	-	-	70,750	70,750
Interest	-	35,376	-	35,376
Other	241,238	19,594	31,816	292,648
	<u>16,827,954</u>	<u>3,003,747</u>	<u>841,222</u>	<u>20,672,923</u>
Depreciation and amortization	<u>251,310</u>	<u>31,061</u>	<u>-</u>	<u>282,371</u>
Total functional expenses	<u><u>\$ 17,079,264</u></u>	<u><u>\$ 3,034,808</u></u>	<u><u>\$ 841,222</u></u>	<u><u>\$ 20,955,294</u></u>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Cash Flows  
Year Ended December 31, 2017**

Cash flows from operating activities	
Cash received from patient services	\$ 9,279,739
Cash received from DHHS grants	3,909,560
Cash received from contract services and other grants	5,531,298
Cash received from contributions	852,020
Cash received from other	165,080
Cash paid to employees	(14,643,379)
Cash paid to vendors	(5,166,737)
Cash paid for interest	(35,376)
	<u>(107,795)</u>
Net cash used in operating activities	<u>(107,795)</u>
Cash flow from investing activity	
Purchase of investments	(4,558)
Purchase of property and equipment	(344,580)
	<u>(349,138)</u>
Net cash used in investing activities	<u>(349,138)</u>
Cash flows from financing activities	
Receipt of line of credit	1,811,984
Repayment of line of credit	(1,619,000)
	<u>192,984</u>
Net cash provided by financing activities	<u>192,984</u>
Net decrease in cash	(263,949)
Cash, beginning	<u>560,931</u>
Cash, end	<u>\$ 296,982</u>
Reconciliation of change in net assets to net cash used in operating activities	
Changes in net assets	\$ (706,560)
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Depreciation and amortization	282,371
Changes in operating assets and liabilities	
Patient services receivable	505,255
Grants and contracts receivable	(352,675)
Prepaid expenses and other receivables	(58,227)
Security deposits	(2,010)
Accounts payable and accrued expenses	475,721
Accrued compensation	(88,091)
Due to third party payor	(163,579)
	<u>(107,795)</u>
Net cash used in operating activities	<u>\$ (107,795)</u>
Supplemental disclosure of noncash investing activities	
Capital acquisitions included in accounts payable and accrued expenses	<u>\$ 85,073</u>

See Notes to Consolidated Financial Statements.



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

### **Notes to Consolidated Financial Statements December 31, 2017**

#### **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 transaction to finance the renovation costs related to property leased by the Company. The Company was inactive as of and for the year ended December 31, 2017.

The Center is the sole member of the Foundation and the Company (collectively, the "Affiliates") and is, therefore, considered the parent company. 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.

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.

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

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

### **Notes to Consolidated Financial Statements December 31, 2017**

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 \$180,889 at December 31, 2017.

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, 2017.

#### **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. 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 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. 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 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.

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

### **Notes to Consolidated Financial Statements December 31, 2017**

#### **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 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

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

### **Notes to Consolidated Financial Statements December 31, 2017**

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 based on 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 \$80,000 in 2017, while community benefits approximated \$4,700,000 in 2017.

#### **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 ("HITECH") 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 Center's providers have met the criteria for participation and the Center has earned \$119,500 from the Medicaid incentive program as of December 31, 2017. 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, 2017, the Organization has received conditional grants and contracts from governmental entities in the aggregate amount of \$3,450,592 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.

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

### **Notes to Consolidated Financial Statements December 31, 2017**

#### **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.

#### **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, 2017. The Center and the Foundation's federal and state income tax returns prior to fiscal year 2014 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, 2017, the Company had no activities and owed no income taxes as of December 31, 2017. The Company has no unrecognized tax benefits at December 31, 2017. 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 16, 2018, 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, 2017**

**Note 3 - Patient services receivable**

Patient services receivable consist of the following:

Medicaid and Medicaid managed care	\$ 1,333,583
Medicare	89,573
Other third party	29,082
New York State Uncompensated Care	<u>227,061</u>
Total	<u>\$ 1,679,299</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 Center had no outstanding receivables from self-pay patients at December 31, 2017; hence, there is no allowance for doubtful accounts as of December 31, 2017. There were also no write-offs for the year ended December 31, 2017. The Center has not changed its charity care or uninsured discount policies during fiscal year 2017. 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	\$ 570,376
Health Service Program - Dental	31,237
City of New York Department of Homeless Services:	
PATH Contract	424,592
Other	<u>293,341</u>
Total	<u>\$ 1,319,546</u>

**The Floating Hospital, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

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

Property and equipment, net consists of the following:

Vehicles	\$	405,900
Furniture and equipment		2,727,688
Leasehold improvements		<u>1,624,737</u>
Subtotal		4,758,325
Less accumulated depreciaton and amortization		<u>(3,710,510)</u>
Construction-in-progress		1,047,815
		<u>516,297</u>
Total	\$	<u><u>1,564,112</u></u>

Depreciation and amortization expense amounted to \$282,371 in 2017. 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.

**Note 6 - Due to third party payor**

As of December 31, 2017, the Organization had a liability to Medicaid of \$72,272, representing duplicate Medicaid supplemental and fee-for-service payments received by the Center.

**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 October 26, 2018 and bears interest at LIBOR which was 5.805% for the year ended December 31, 2017. The line of credit is secured by all business assets of the Center. At December 31, 2017, the line of credit has an outstanding balance of \$992,984.

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

**Notes to Consolidated Financial Statements  
December 31, 2017**

**Note 8 - Temporarily restricted net assets**

Temporarily restricted net assets at December 31, 2017 consist of contributions received from the following organizations for specific programs and activities:

	Balance January 1, 2017	Additions	Released from restrictions	Balance December 31, 2017
United Nations Federal Credit Union				
Mental Health Program for Women and Girls	\$ 40,000	\$ -	\$ 40,000	\$ -
Health Education	7,618	-	7,618	-
Healthy Smiles Healthy Children				
Improve Children's Access to Dental	226	-	226	-
Van Ameringen				
Mental Health Integrated Care	63,400	-	44,496	18,904
CVS - Transportation Program	2,937	-	1,280	1,657
Sarah K. De Coizart - Optometry Program	50,000	-	50,000	-
Cummings Foundation				
Senior Mental Health Case Manager	35,000	-	20,707	14,293
DeCamp Foundation				
New site	-	200,000	200,000	-
Volunteer Services for Children				
Health Education	-	10,000	6,400	3,600
United Nations Federal Credit Union				
Mental Health Program for Women and Girls	-	50,000	-	50,000
Hyde and Watson				
Purchase of Transportation Vehicle	-	10,000	-	10,000
Volunteer Services for Children				
Health Education	-	10,000	-	10,000
CVS - Health Education	-	15,000	-	15,000
CVS - Mental Health	-	15,000	-	15,000
Dental Quest - Dental Equipment	-	12,435	-	12,435
O'Neill Foundation - Mental Health	-	30,000	-	30,000
Investors Foundation - Summer internships	-	2,500	2,500	-
Direct Relief - Emergency Preparation	-	5,500	5,500	-
<b>Total</b>	<b>\$ 199,181</b>	<b>\$ 360,435</b>	<b>\$ 378,727</b>	<b>\$ 180,889</b>



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

**Notes to Consolidated Financial Statements  
December 31, 2017**

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

Medicaid and Medicaid managed care	\$ 6,925,090
Medicare	331,386
Other third party	243,189
Self-pay	88,692
New York State Uncompensated Care	<u>1,186,127</u>
Total	<u><u>\$ 8,774,484</u></u>

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, 2017, the Center recognized grant revenue from the DHHS as follows:

Grant number	Grant period	Total grant	Revenue recognized
6 H80CS00268-15-10	1/1/2017 - 12/31/2017	<u>\$ 4,026,693</u>	<u>\$ 3,909,560</u>

**The Floating Hospital, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2017**

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

For the year ended December 31, 2017, contract services and other grants consist of the following:

City of New York Department of Homeless Services:	
PATH Contract	\$ 995,530
City of New York Department of Health and Mental Hygiene:	
Vaccines for Children Program	328,720
New York Administration for Children's Services:	
Health Service Program - Medical	4,405,087
Health Service Program - Dental	211,259
Other	<u>272,097</u>
Total	<u>\$ 6,212,693</u>

**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 \$335,328 for the year ended December 31, 2017.

**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, 2017.

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

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

**Notes to Consolidated Financial Statements  
December 31, 2017**

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 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 Company 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 which 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's current property leases are under month-to-month arrangements.

## **Supplementary Information**

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

**Consolidating Statement of Financial Position  
December 31, 2017**

	The Floating Hospital, Inc.	The Floating Hospital Foundation, Inc.	Eliminations	Total
<u>Assets</u>				
Current assets				
Cash	\$ 12,521	\$ 284,461	\$ -	\$ 296,982
Short term investment	-	4,558	-	4,558
Patient services receivable	1,679,299	-	-	1,679,299
Grants and contracts receivable	1,319,546	-	-	1,319,546
Prepaid expenses and other receivables	402,945	92,818	-	495,763
Due from affiliate	9,537	-	(9,537)	-
Total current assets	<u>3,423,848</u>	<u>381,837</u>	<u>(9,537)</u>	<u>3,796,148</u>
Property and equipment, net	1,564,112	-	-	1,564,112
Security deposits	<u>137,387</u>	<u>-</u>	<u>-</u>	<u>137,387</u>
Total assets	<u>\$ 5,125,347</u>	<u>\$ 381,837</u>	<u>\$ (9,537)</u>	<u>\$ 5,497,647</u>
<u>Liabilities and Net Assets</u>				
Current liabilities				
Line of credit	\$ 992,984	\$ -	\$ -	\$ 992,984
Accounts payable and accrued expenses	995,610	92,844	-	1,088,454
Accrued compensation	629,716	3,112	-	632,828
Due to third party payor	72,272	-	-	72,272
Refundable advances	-	-	-	-
Due to affiliate	-	9,537	(9,537)	-
Total current liabilities	<u>2,690,582</u>	<u>105,493</u>	<u>(9,537)</u>	<u>2,786,538</u>
Commitments and contingencies				
Net assets				
Unrestricted	2,253,876	276,344	-	2,530,220
Temporarily restricted	<u>180,889</u>	<u>-</u>	<u>-</u>	<u>180,889</u>
Total net assets	<u>2,434,765</u>	<u>276,344</u>	<u>-</u>	<u>2,711,109</u>
Total liabilities and net assets	<u>\$ 5,125,347</u>	<u>\$ 381,837</u>	<u>\$ (9,537)</u>	<u>\$ 5,497,647</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, 2017**

	The Floating Hospital, Inc.			The Floating Hospital Foundation, Inc.			Eliminations	Total		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total		Unrestricted	Temporarily restricted	Total
Revenue										
Patient services, net	\$ 8,774,484	\$ -	\$ 8,774,484	\$ -	\$ -	\$ -	\$ -	\$ 8,774,484	\$ -	\$ 8,774,484
DHHS grants	3,909,560	-	3,909,560	-	-	-	-	3,909,560	-	3,909,560
Contract services and other grants	6,212,693	-	6,212,693	-	-	-	-	6,212,693	-	6,212,693
Contributions	65,958	360,435	426,393	827,062	-	827,062	(401,435)	491,585	360,435	852,020
Donated medicines	332,887	-	332,887	-	-	-	-	332,887	-	332,887
Other	156,574	-	156,574	10,516	-	10,516	-	167,090	-	167,090
Net assets released from restrictions	378,727	(378,727)	-	-	-	-	-	378,727	(378,727)	-
Total revenue	19,830,883	(18,292)	19,812,591	837,578	-	837,578	(401,435)	20,267,026	(18,292)	20,248,734
Expenses										
Salaries and benefits	14,482,840	-	14,482,840	72,448	-	72,448	-	14,555,288	-	14,555,288
Other than personnel services	5,682,937	-	5,682,937	399,322	-	399,322	-	6,082,259	-	6,082,259
Contributions	-	-	-	401,435	-	401,435	(401,435)	-	-	-
Interest	35,376	-	35,376	-	-	-	-	35,376	-	35,376
Total expenses	20,201,153	-	20,201,153	873,205	-	873,205	(401,435)	20,672,923	-	20,672,923
Changes in net assets before depreciation and amortization	(370,270)	(18,292)	(388,562)	(35,627)	-	(35,627)	-	(405,897)	(18,292)	(424,189)
Depreciation and amortization	282,371	-	282,371	-	-	-	-	282,371	-	282,371
Changes in net assets	(652,641)	(18,292)	(670,933)	(35,627)	-	(35,627)	-	(688,268)	(18,292)	(706,560)
Net assets										
Beginning	2,906,517	199,181	3,105,698	311,971	-	311,971	-	3,218,488	199,181	3,417,669
End	\$ 2,253,876	\$ 180,889	\$ 2,434,765	\$ 276,344	\$ -	\$ 276,344	\$ -	\$ 2,530,220	\$ 180,889	\$ 2,711,109

See Independent Auditor's Report.

**The Floating Hospital, Inc. and Affiliates**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2017**

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:				
Health Center Program (community Health Centers Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	\$ -	\$ 1,974,940
Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	-	1,934,620
Total - Health Centers Cluster				3,909,560
Passed through City of New York Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements	93.268	Not Available	-	328,720
Total expenditures of federal awards			\$ -	\$ 4,238,280

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, 2017**

**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, 2017. 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 \$328,720 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, 2017, 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 16, 2018. 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 16, 2018

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, 2017. 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, 2017.

*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 16, 2018

**The Floating Hospital, Inc. and Affiliates**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2017**

**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)  
 Grants for New and Expanded Services under the Health Center Program

93.527

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**  
**Year Ended December 31, 2017**

**Section II - Financial Statement Findings**

None

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

None

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