

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, 2018

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, 2018, 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, 2018, 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 22 and 23 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the changes in net assets of the individual organizations, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2019 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
July 24, 2019

The Floating Hospital, Inc. and Affiliates
Consolidated Statement of Financial Position
December 31, 2018

Assets

Current assets	
Cash	\$ 731,124
Short-term investment	4,558
Patient services receivable	1,460,073
Grants and contracts receivable	1,424,975
Prepaid expenses and other receivables	226,533
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Total current assets	3,847,263
Property and equipment, net	2,852,082
Security deposits	105,012
	<hr/>
Total assets	<u><u>\$ 6,804,357</u></u>

Liabilities and Net Assets

Current liabilities	
Line of credit	\$ 500,000
Accounts payable and accrued expenses	995,944
Accrued compensation	731,350
Due to third-party payor	72,272
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Total current liabilities	2,299,566
Commitments and contingencies	
Net assets	
Without donor restrictions	3,445,875
With donor restrictions	1,058,916
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Total net assets	4,504,791
	<hr/>
Total liabilities and net assets	<u><u>\$ 6,804,357</u></u>

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, 2018**

	Without donor restrictions	With donor restrictions	Total
Revenue			
Patient services (net of contractual allowances and discounts)	\$ 9,106,376	\$ -	\$ 9,106,376
DHHS grants	4,213,115	-	4,213,115
Contract services and other grants	6,842,714	-	6,842,714
Contributions (including unrestricted special events revenue of \$336,198)	1,198,979	130,000	1,328,979
Donated medicines	422,961	-	422,961
Other	85,246	-	85,246
Net assets released from restrictions	191,973	(191,973)	-
Total revenue	22,061,364	(61,973)	21,999,391
Expenses			
Salaries and benefits	14,679,658	-	14,679,658
Other than personnel services	6,856,480	-	6,856,480
Interest	41,580	-	41,580
Total expenses	21,577,718	-	21,577,718
Changes in net assets before depreciation and amortization	483,646	(61,973)	421,673
Depreciation and amortization	317,991	-	317,991
Operating income prior to nonoperating revenue	165,655	(61,973)	103,682
Nonoperating revenue			
Contributions for capital project	-	1,690,000	1,690,000
Net assets released from restrictions	750,000	(750,000)	-
Total nonoperating revenue	750,000	940,000	1,690,000
Changes in net assets	915,655	878,027	1,793,682
Net assets			
Beginning	2,530,220	180,889	2,711,109
End	\$ 3,445,875	\$ 1,058,916	\$ 4,504,791

See Notes to Consolidated Financial Statements.

The Floating Hospital, Inc. and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2018**

	Program services	General and administrative	Fundraising and development	Total
Salaries and wages	\$ 9,632,753	\$ 1,545,396	\$ 160,842	\$ 11,338,991
Fringe benefits and payroll taxes	2,812,350	504,217	24,100	3,340,667
Consultants and contractual services	525,542	187,703	24,441	737,686
Professional fees	244,600	293,976	-	538,576
Consumable supplies	1,667,835	105,578	120,706	1,894,119
Healthcare consultants	360,332	-	-	360,332
Occupancy	546,114	95,960	-	642,074
Laboratory fees	39,273	56	-	39,329
Insurance	338,657	9,096	-	347,753
Repairs and maintenance	358,887	7,768	-	366,655
Equipment rental	60,159	18,337	-	78,496
Dues and subscriptions	17,628	25,977	-	43,605
Telephone	158,188	32,829	-	191,017
Travel, conferences and meeting	21,296	24,975	3,420	49,691
Patient transportation	119,126	729	-	119,855
Data processing	199,489	30,561	355	230,405
Printing, publications and postage	13,480	13,925	-	27,405
Public information	36,740	13,592	-	50,332
Special events	4,463	-	117,834	122,297
Interest	-	41,580	-	41,580
Other	224,700	31,604	760,549	1,016,853
	17,381,612	2,983,859	1,212,247	21,577,718
Depreciation and amortization	286,192	31,799	-	317,991
Total functional expenses	<u>\$ 17,667,804</u>	<u>\$ 3,015,658</u>	<u>\$ 1,212,247</u>	<u>\$ 21,895,709</u>

See Notes to Consolidated Financial Statements.

The Floating Hospital, Inc. and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities	
Cash received from patient services	\$ 9,325,602
Cash received from DHHS grants	4,213,115
Cash received from contract services and other grants	6,355,823
Cash received from contributions	1,328,979
Cash received from other	117,621
Cash paid to employees	(14,581,134)
Cash paid to vendors	(5,875,337)
Cash paid for interest	<u>(41,580)</u>
Net cash provided by operating activities	<u>843,089</u>
Cash flows from investing activity	
Purchase of property and equipment	<u>(1,605,963)</u>
Net cash used in investing activities	<u>(1,605,963)</u>
Cash flows from financing activities	
Receipt of line of credit	2,325,000
Repayment of line of credit	(2,817,984)
Receipt of nonoperating contribution for capital project	<u>1,690,000</u>
Net cash provided by financing activities	<u>1,197,016</u>
Net increase in cash	434,142
Cash, beginning	<u>296,982</u>
Cash, end	<u><u>\$ 731,124</u></u>

See Notes to Consolidated Financial Statements.

The Floating Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2018

Note 1 - Organization

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

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

TFHServices, LLC (the "Company") was incorporated on October 19, 2016, as a single-purpose entity to facilitate the borrowings related to a New Markets Tax Credit ("NMTC") transaction to finance the renovation costs related to property leased by the Company. The NMTC transaction closed on February 28, 2019, (see Note 15). The Company had no operating activities as of and for the year ended December 31, 2018.

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.

Adoption of new accounting pronouncement

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented, except for the availability and liquidity disclosure. A key change required by ASU 2016-14 is the net asset classes used in the financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

The Floating Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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 consolidated financial position and activities according to the following two categories:

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

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

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

Cash

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Organization 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.

The Floating Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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.

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 revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as revenue without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and 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 revenue without donor restrictions. 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, patient services receivable and grants and contracts receivable. The Organization places its cash 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

The Floating Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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 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 \$463,000 in 2018, while community benefits approximated \$3,556,000 in 2018.

Meaningful use incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that (1) meaningfully use certified electronic health record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health Act. The criteria for meaningful use

The Floating Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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 \$59,500 from the Medicaid incentive program as of December 31, 2018. 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 nonoperating revenue without donor restrictions, 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, 2018, the Organization has received conditional grants and contracts from governmental entities in the approximate amount of \$3,000,000 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

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

Performance indicator

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

Tax status

The Center and the Foundation were incorporated as not-for-profit corporations under the laws of the State of New York and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. The Center and the Foundation have no unrecognized tax benefits at December 31, 2018. The Center and the Foundation's federal and state income tax returns prior to fiscal year 2015 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Floating Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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, 2018, the Company had no activities and owed no income taxes as of December 31, 2018. The Company has no unrecognized tax benefits at December 31, 2018. 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 July 24, 2019, which is the date the consolidated financial statements were available to be issued.

Note 3 - Patient services receivable

Patient services receivable consists of the following:

Medicaid and Medicaid managed care	\$ 834,119
Medicare	58,913
Other third-party	25,902
New York State Uncompensated Care	<u>541,139</u>
Total	<u>\$ 1,460,073</u>

Patient services receivable is 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 Affiliates

**Notes to Consolidated Financial Statements
December 31, 2018**

The Center had no outstanding receivables from self-pay patients at December 31, 2018; hence, there is no allowance for doubtful accounts as of December 31, 2018. There were also no write-offs for the year ended December 31, 2018. The Center has not changed its charity care or uninsured discount policies during fiscal year 2018. 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	\$ 415,803
Health Service Program - Dental	43,783
City of New York Department of Homeless Services	
PATH Contract	556,969
Stavros Niarchos Foundation	150,000
Other	<u>258,420</u>
Total	<u>\$ 1,424,975</u>

Note 5 - Property and equipment, net

Property and equipment, net consists of the following:

Vehicles	\$ 563,628
Furniture and equipment	2,782,059
Leasehold improvements	<u>1,645,156</u>
Subtotal	4,990,843
Less accumulated depreciation and amortization	<u>(4,028,503)</u>
Subtotal	962,340
Construction-in-progress	<u>1,889,742</u>
Total	<u>\$ 2,852,082</u>

Depreciation and amortization expense amounted to \$317,991 in 2018. 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, 2018, the Organization had a liability to Medicaid of \$72,272, representing duplicate Medicaid supplemental and fee-for-service payments received by the Center.

The Floating Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

Note 7 - Lines of credit

The Center has a revolving line of credit with a bank in the amount of \$1,000,000. The line of credit matured on October 26, 2018 and was renewed with a new maturity date of October 26, 2019. The line of credit bears interest at the adjusted LIBOR rate plus the applicable margin of 5.92%. The line of credit is secured by all business assets of the Center. The line of credit did not have an outstanding balance as of December 31, 2018.

On October 24, 2018, the Center entered into a line of credit agreement with a bank for \$500,000, with a maturity date of May 5, 2019. The line of credit bears interest at a rate of 8.11% at December 31, 2018. The line of credit is secured by all business assets of the Center. At December 31, 2018, the line of credit has an outstanding balance of \$500,000. The line of credit was not renewed.

Note 8 - Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2018 consist of contributions received from the following organizations for specific programs and activities:

	Balance January 1, 2018	Additions	Released from restrictions	Balance December 31, 2018
Cummings Foundation				
Senior Mental Health Case Manager	\$ 14,293	\$ -	\$ 14,293	\$ -
Van Ameringen				
Mental Health Integrated Care	18,904	-	18,904	-
CVS - Transportation Program	1,657	-	1,657	-
Volunteer Services for Children				
Health Education	3,600	-	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	-	12,400	2,600
Dental Quest - Dental Equipment	12,435	-	12,435	-
O'Neill Foundation - Mental Health	30,000	-	30,000	-
Laura B. Vogler Foundation - Health Education	-	5,000	5,000	-
Fund for Public Schools				
Health Education Training and Seminars	-	20,000	-	20,000
Cummings Foundation				
Senior Mental Health Case Manager	-	35,000	15,064	19,936
Weinberg Foundation	-	1,500,000	750,000	750,000
Madeleine Richard - Naming Opportunity	-	40,000	-	40,000
United Nations Federal Credit Union				
Mental Health Program for Women and Girls	-	50,000	3,620	46,380
Jewish Communal Fund - Health Education	-	20,000	-	20,000
Stavros Niarchos Foundation - Capital Renovation	-	150,000	-	150,000
Total	<u>\$ 180,889</u>	<u>\$ 1,820,000</u>	<u>\$ 941,973</u>	<u>\$ 1,058,916</u>

The Floating Hospital, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2018**

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 services revenue, net of contractual allowances and discounts recognized in the period from these major payor sources, is as follows:

Medicaid and Medicaid managed care	\$ 7,556,921
Medicare	397,756
Other third-party	297,386
Self-pay	86,113
New York State Uncompensated Care	<u>768,200</u>
Total	<u><u>\$ 9,106,376</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, 2018, the Center recognized grant revenue from the DHHS as follows:

<u>Grant number</u>	<u>Grant period</u>	<u>Total grant</u>	<u>Revenue recognized</u>
6 H80CS00268-16-11	1/1/2018 - 12/31/2018	\$ 4,310,840	\$ 4,088,952
1 FPHA006355-01-00	9/1/2018 - 3/31/2019	400,000	<u>124,163</u>
Total			<u><u>\$ 4,213,115</u></u>

The Floating Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2018

Note 11 - Contract services and other grants

For the year ended December 31, 2018, contract services and other grants consist of the following:

City of New York Department of Homeless Services PATH Contract	\$ 998,571
City of New York Department of Health and Mental Hygiene Vaccines for Children Program	381,642
New York Administration for Children's Services Health Service Program - Medical	4,275,621
Health Service Program - Dental	312,233
Other	<u>874,647</u>
Total	<u>\$ 6,842,714</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 \$297,347 for the year ended December 31, 2018.

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, 2018.

The Floating Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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 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 Center entered into various lease agreements for the use of space which have been classified as operating leases and expire on various dates through to 2026. As of December 31, 2018, the Center is obligated to make future minimum payments in each of the subsequent five years and thereafter as follows:

2019	\$	102,550
2020		35,050
2021		12,550
2022		13,303
2023		13,303
Thereafter		<u>27,405</u>
Total	\$	<u><u>204,161</u></u>

Total rental expense under operating leases amounted to \$26,844 in 2018. Some of the Organization's current property leases are under month-to-month arrangements.

The Floating Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2018

Note 14 - Availability and liquidity

The following represents the Organization's financial assets at December 31, 2018:

	<u>2018</u>
Financial assets at year-end	
Cash	\$ 731,124
Short-term investment	4,558
Patient accounts receivable, net	1,460,073
Grants and contracts receivable	<u>1,424,975</u>
Subtotal	3,620,730
Less: Net assets with donor restrictions	<u>1,058,916</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 2,561,814</u></u>

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

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

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

Note 15 - Subsequent events

New Markets Tax Credit Financing

By the end of 2019, the Organization expects to complete a new clinic space that will replace its current clinic in Long Island City, New York. The space is near its current clinic in Long Island City in an underserved area. It has 28,500 square feet on three floors, larger than the current clinic space by 10,000 square feet. Funded as a NMTC project that closed on February 28, 2019, it has a \$7.3 million budget. In the new space, the Center expects to increase the number of patient visits by 42% and the number of patients seen by 50% in five years.

The Floating Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2018

340B Pharmacy

The Organization is in the process of opening a retail pharmacy in 2019, adjacent to its current clinic in Long Island City. While welcoming the general public, the pharmacy will also allow patients to pick up their prescriptions upon finishing their clinical visit. All eligible patients will have access to 340B drug pricing discounts.

Supplementary Information

The Floating Hospital, Inc. and Affiliates

Consolidating Statement of Financial Position December 31, 2018

	The Floating Hospital, Inc.	The Floating Hospital Foundation, Inc.	TFHServices, LLC	Eliminations	Total
<u>Assets</u>					
Current assets					
Cash	\$ 51,169	\$ 679,455	\$ 500	\$ -	\$ 731,124
Short-term investment	-	4,558	-	-	4,558
Patient services receivable	1,460,073	-	-	-	1,460,073
Grants and contracts receivable	1,274,975	150,000	-	-	1,424,975
Prepaid expenses and other receivables	216,844	9,689	-	-	226,533
Due from affiliate	-	181,074	-	(181,074)	-
	<u>3,003,061</u>	<u>1,024,776</u>	<u>500</u>	<u>(181,074)</u>	<u>3,847,263</u>
Total current assets	3,003,061	1,024,776	500	(181,074)	3,847,263
Property and equipment, net	2,845,454	6,628	-	-	2,852,082
Security deposits	105,012	-	-	-	105,012
	<u>105,012</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,012</u>
Total assets	<u>\$ 5,953,527</u>	<u>\$ 1,031,404</u>	<u>\$ 500</u>	<u>\$ (181,074)</u>	<u>\$ 6,804,357</u>
<u>Liabilities and Net Assets</u>					
Current liabilities					
Line of credit	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Accounts payable and accrued expenses	958,981	36,963	-	-	995,944
Accrued compensation	717,558	13,792	-	-	731,350
Due to third-party payor	72,272	-	-	-	72,272
Due to affiliate	181,074	-	-	(181,074)	-
	<u>2,429,885</u>	<u>50,755</u>	<u>-</u>	<u>(181,074)</u>	<u>2,299,566</u>
Total current liabilities	2,429,885	50,755	-	(181,074)	2,299,566
Commitments and contingencies					
Net assets					
Without donor restrictions	3,404,726	40,649	500	-	3,445,875
With donor restrictions	118,916	940,000	-	-	1,058,916
	<u>3,523,642</u>	<u>980,649</u>	<u>500</u>	<u>-</u>	<u>4,504,791</u>
Total net assets	3,523,642	980,649	500	-	4,504,791
Total liabilities and net assets	<u>\$ 5,953,527</u>	<u>\$ 1,031,404</u>	<u>\$ 500</u>	<u>\$ (181,074)</u>	<u>\$ 6,804,357</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, 2018

	The Floating Hospital, Inc.			The Floating Hospital Foundation, Inc.			TFHServices, LLC	Eliminations	Total		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total			Without donor restrictions	With donor restrictions	Total
Revenue											
Patient services, net	\$ 9,106,376	\$ -	\$ 9,106,376	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,106,376	\$ -	\$ 9,106,376
DHHS grants	4,213,115	-	4,213,115	-	-	-	-	-	4,213,115	-	4,213,115
Contract services and other grants	6,842,714	-	6,842,714	-	-	-	-	-	6,842,714	-	6,842,714
Contributions	223,257	130,000	353,257	1,227,202	-	1,227,202	-	(251,480)	1,198,979	130,000	1,328,979
Donated medicines	422,961	-	422,961	-	-	-	-	-	422,961	-	422,961
Other	83,916	-	83,916	830	-	830	500	-	85,246	-	85,246
Net assets released from restrictions	191,973	(191,973)	-	-	-	-	-	-	191,973	(191,973)	-
Total revenue	21,084,312	(61,973)	21,022,339	1,228,032	-	1,228,032	500	(251,480)	22,061,364	(61,973)	21,999,391
Expenses											
Salaries and benefits	14,494,716	-	14,494,716	184,942	-	184,942	-	-	14,679,658	-	14,679,658
Other than personnel services	5,829,175	-	5,829,175	1,027,305	-	1,027,305	-	-	6,856,480	-	6,856,480
Contributions	-	-	-	251,480	-	251,480	-	(251,480)	-	-	-
Interest	41,580	-	41,580	-	-	-	-	-	41,580	-	41,580
Total expenses	20,365,471	-	20,365,471	1,463,727	-	1,463,727	-	(251,480)	21,577,718	-	21,577,718
Changes in net assets before depreciation and amortization	718,841	(61,973)	656,868	(235,695)	-	(235,695)	500	-	483,646	(61,973)	421,673
Depreciation and amortization	317,991	-	317,991	-	-	-	-	-	317,991	-	317,991
Operating income (loss) prior to nonoperating revenue	400,850	(61,973)	338,877	(235,695)	-	(235,695)	500	-	165,655	(61,973)	103,682
Nonoperating revenue											
Contributions for capital project	-	750,000	750,000	-	940,000	940,000	-	-	-	1,690,000	1,690,000
Net assets released from restrictions	750,000	(750,000)	-	-	-	-	-	-	750,000	(750,000)	-
Total nonoperating revenue	750,000	-	750,000	-	940,000	940,000	-	-	750,000	940,000	1,690,000
Changes in net assets	1,150,850	(61,973)	1,088,877	(235,695)	940,000	704,305	500	-	915,655	878,027	1,793,682
Net assets											
Beginning	2,253,876	180,889	2,434,765	276,344	-	276,344	-	-	2,530,220	180,889	2,711,109
End	\$ 3,404,726	\$ 118,916	\$ 3,523,642	\$ 40,649	\$ 940,000	\$ 980,649	\$ 500	\$ -	\$ 3,445,875	\$ 1,058,916	\$ 4,504,791

See Independent Auditor's Report.

The Floating Hospital, Inc. and Affiliates

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018**

Federal grantor/ pass-through grantor/program or cluster title	Federal CFDA number	Pass-through grantor's number	Passed through to subrecipients	Total expenditures
U.S. Department of Health and Human Services:				
Direct programs:				
Health Centers Cluster:				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care)	93.224	N/A	\$ -	\$ 961,374
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>-</u>	<u>3,127,578</u>
Total - Health Centers Cluster			<u>-</u>	<u>4,088,952</u>
Family Planning Services	93.217	N/A	<u>-</u>	<u>124,163</u>
Total U.S. Department of Health and Human Services			<u>-</u>	<u>4,213,115</u>
Passed through City of New York Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements	93.268	Not Available	<u>-</u>	<u>381,462</u>
Total expenditures of federal awards			<u><u>\$ -</u></u>	<u><u>\$ 4,594,577</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

The Floating Hospital, Inc. and Affiliates

Notes to Schedule of Expenditures of Federal Awards December 31, 2018

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, 2018. 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 \$381,462 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, 2018, 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 24, 2019. 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
July 24, 2019

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, 2018. 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, 2018.

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 24, 2019

The Floating Hospital, Inc. and Affiliates

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2018**

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

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

93.224

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, 2018

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None



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