

Compassion Health Toledo

Reviewed Financial Statements

As of and for the Year Ended
December 31, 2020

Draft

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Draft

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Compassion Health Toledo
Toledo, Ohio

We have reviewed the accompanying financial statements of Compassion Health Toledo (the "Organization"), which comprise the statement of financial position as of December 31, 2020, the related statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the Organization's financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

COMPASSION HEALTH TOLEDO
 STATEMENT OF FINANCIAL POSITION
 AS OF DECEMBER 31, 2020

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 596,262
Patient accounts receivable, net	66,549
Grant and other receivables	23,813
Investments in marketable securities	1,159
Prepaid expenses	12,340
Total current assets	700,123
PROPERTY AND EQUIPMENT, net	198,381
Total assets	\$ 898,504

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 1,869
Accrued expenses	6,708
Other current liabilities	12,588
Total current liabilities	21,165
NET ASSETS	
Without donor restrictions	842,225
With donor restrictions	35,114
Total net assets	877,339
Total liabilities and net assets	\$ 898,504

See accompanying notes and independent accountant's review report.

COMPASSION HEALTH TOLEDO

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020

	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL
REVENUE AND SUPPORT:			
Patient services revenue, net	\$ 387,450	\$ -	\$ 387,450
Contributions	283,052	68,950	352,002
Other revenue and support	126,872	-	126,872
Net assets released from restriction	185,399	(185,399)	-
Total revenue and support	982,773	(116,449)	866,324
EXPENSES:			
Program services	519,227	-	519,227
Management and general	188,988	-	188,988
Fundraising	2,217	-	2,217
Total expenses	710,432	-	710,432
Changes in net assets	272,341	(116,449)	155,892
NET ASSETS, beginning of the year	569,884	151,563	721,447
NET ASSETS, end of the year	\$ 842,225	\$ 35,114	\$ 877,339

See accompanying notes and independent accountant's review report.

COMPASSION HEALTH TOLEDO

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
FUNCTIONAL EXPENSES:				
Salaries and wages	\$ 317,889	\$ 105,963	\$ -	\$ 423,852
Payroll taxes and benefits	41,666	13,889	-	55,555
Professional fees	42,702	14,234	-	56,936
Supplies	41,160	13,720	-	54,880
Utilities	16,733	5,578	-	22,311
Office expenses	-	15,912	-	15,912
Depreciation	7,144	2,382	-	9,526
Occupancy	38,740	12,913	-	51,653
Dues and subscriptions	5,130	1,710	-	6,840
Insurance	3,748	1,249	-	4,997
Fundraising	-	-	2,217	2,217
Donations	2,500	833	-	3,333
Travel	1,815	605	-	2,420
Total functional expenses	<u>\$ 519,227</u>	<u>\$ 188,988</u>	<u>\$ 2,217</u>	<u>\$ 710,432</u>

See accompanying notes and independent accountant's review report.

COMPASSION HEALTH TOLEDO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	\$ 155,892
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation expense	9,526
Net realized and unrealized gains on investments	(669)
Donation of marketable securities	(10,290)
(Increase) decrease in operating assets:	
Accounts receivable	(30,211)
Prepaid expenses	(1,769)
Increase (decrease) in operating liabilities:	
Accounts payable	(54,857)
Accrued expenses	3,716
Other current liabilities	11,957
Total adjustments	<u>(72,597)</u>
Net cash provided by operating activities	83,295
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the sale of investments in marketable securities	10,933
Payments for the purchase of property and equipment	<u>(28,772)</u>
Net cash used in investing activities	<u>(17,839)</u>
Net increase in cash and cash equivalents	65,456
CASH AND CASH EQUIVALENTS, beginning of the year	<u>530,806</u>
CASH AND CASH EQUIVALENTS, end of the year	<u><u>\$ 596,262</u></u>

See accompanying notes and independent accountant's review report.

COMPASSION HEALTH TOLEDO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Compassion Health Toledo (also known as “CHT” and referred to as the “Organization”) was incorporated in 2015 for the purpose of addressing the healthcare shortage in medically under-served areas. The Organization is a primary care health provider located in Toledo, Ohio.

In December 2020, the Organization received look-alike designation as a Federally Qualified Health Clinic (“FQHC”) effective January 1, 2021. FQHC look-alike status allows the Organization to receive federal grants and provides enhanced reimbursement under the Medicare and Medicaid programs. The Organization’s significant sources of revenue include reimbursement for patient services from Medicare, Medicaid and commercial third-party insurers and other public support.

Basis of Accounting

The Organization’s financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Management Estimates

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

Accounting Pronouncements Adopted

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Organization applied the modified retrospective approach to all contracts when adopting ASC 606. The adoption of ASC 606 did not have a material impact on the financial statements and the Organization does not expect it to have a material impact on its results of operations on a prospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable

Patient accounts receivable are recorded at net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience without regard to aging category. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends.

COMPASSION HEALTH TOLEDO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient accounts receivable can be impacted by the effectiveness of the Organization's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The Organization also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables and the impact of recent acquisitions and dispositions.

Patient accounts receivable on the statement of financial position includes allowance for doubtful accounts and contractual adjustments of \$197,004 for the year ended December 31, 2020.

Investments in Marketable Securities

Investments primarily consist of an internally managed portfolio of stocks and are presented at fair value. Net realized and unrealized gains and losses are reported as increases or decreases in net assets without donor restriction, unless their use is restricted by explicit donor stipulations.

Property and Equipment

Property and equipment purchases greater than \$2,500 are carried at cost, less accumulated depreciation. Depreciation on leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the underlying assets or the lease term. Depreciation on property and equipment is provided on the straight-line method over the estimated useful lives of the assets, ranging from 5 to 15 years.

Maintenance and repairs are expensed as incurred. Renewals and improvements, which extend the useful lives of the assets, are charged to the property and equipment accounts. The cost of assets retired or otherwise disposed of, together with the accumulated depreciation thereon, is removed from the respective accounts and the resulting gain or loss is charged or credited to revenue and support.

Construction in Progress

Construction in progress includes the costs incurred in the design and construction of property and equipment which have not yet been placed into service. These costs include all direct costs whenever a period of time is required for certain activities that are necessary to prepare an asset for its intended use. When the assets are placed in service, the construction in progress costs accumulated to date are capitalized as property and equipment, and depreciated over the estimated useful life of the underlying asset class.

Net Assets and Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction – Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the "Board") and/or management for general operating purposes. From time to time, the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

COMPASSION HEALTH TOLEDO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets With Donor Restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. The Organization's restricted net assets as of December 31, 2020 totaled \$35,114, which consist mostly of restrictions for equipment and renovations.

Revenue and Support Recognition

In accordance with Topic 606, the Organization recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Organization expects to receive in exchange for those goods or services.

To determine revenue recognition for the arrangements that the Organization determines are within the scope of Topic 606, the Organization performs the following five steps:

- Identify the contract(s) with a customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The Organization provides outpatient primary care services. The performance obligation of providing these services are simultaneously received and consumed by the customers; therefore, the revenue is recognized over time as these services are provided.

The Organization's specific revenue and support recognition policies are as follows:

Grant Revenue

The Organization recognizes funds received from grants as revenue when the related services are provided or when qualifying expenditures are incurred. Deferred grant revenue represents grant funds received in advance of revenue recognition.

Contributions

Contributions are recognized when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Contributions received are recorded as either contributions with or without donor restrictions, depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction depending on the nature of the restriction. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction.

Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

COMPASSION HEALTH TOLEDO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions

Amounts are reported in the financial statements for voluntary donations of service when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills, and which would be typically purchased if not provided by the donation. Donated services are not reflected in the financial statements, if they do not meet the criteria for recognition under FASB ASC topic, *Accounting for Contributions Received and Contributions Made*.

The Organization's office space is donated from a local business. As a result, the Organization recognized in-kind contribution of rent equal to the market rate per square foot for the square footage leased. Rent expense received in-kind for the year ended December 31, 2020 was \$43,276.

Patient Services

Patient service revenue is recognized as the services are provided and are recorded net of deductions. Deductions from revenues include contractual adjustments. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Contractual adjustments also result from the use of a sliding fee scale which is based upon a patient's income and family size.

A significant portion of the Organization's net patient service revenue is received from the Medicare and Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expenses were \$683 for the year ended December 31, 2020.

Allocation of Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is a private, non-profit corporation, and is exempt from income taxes under Section 501(c)(3) of Internal Revenue Code. However, certain business activities of the Organization may be subject to Federal income taxes. In the opinion of management there were no taxable activities during the year ended December 31, 2020, and accordingly, there was no provision for Federal income taxes.

Generally accepted accounting principles require the Organization to evaluate the level of uncertainty related to whether tax positions taken will be sustained upon examination. Any positions taken that do not meet the more-likely-than-not threshold must be quantified and recorded as a liability for unrecognized tax benefits in the accompanying statements of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management believes that none of the tax positions taken would materially impact the financial statements and no such liabilities have been recorded.

COMPASSION HEALTH TOLEDO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will change the Organization's statement of financial position by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants. This new standard is effective for the Organization's annual reporting periods beginning after December 15, 2021. Management has not yet determined whether this new standard will have a material effect on its financial statements.

Related Parties

Related parties exist when an entity has the ability to significantly influence the management or operating policies of another entity. Related parties also include the Organization's management.

Subsequent Events

The Organization has evaluated subsequent events through November 1, 2021, the date on which the financial statements were available to be issued. Management has determined that there were no transactions or events that required disclosure through the evaluation date.

NOTE 2: RISKS AND UNCERTAINTIES

Uninsured Risk – Cash Deposits

The Organization maintains its cash and cash equivalent balances in financial institutions located in central Ohio. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a coverage limit of \$250,000. As a result, the Organization may have balances in interest-bearing accounts that exceed the insured limit.

Medical Malpractice Claims

The Organization's primary care employees are covered under the Federal Tort Claims Act ("FTCA") for damages related to personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions.

This coverage is applicable to the Organization's officers, governing board members, employees, and contractors who are physicians or other licensed or certified healthcare practitioners working full-time (minimum of 32.5 hours per week) or part-time providing family practice, general internal medicine, general pediatrics, or obstetrics/gynecological services. The FTCA provides occurrence-based coverage and does not include any coverage limits.

Concentration of Credit Risk – Patient Receivables

The Organization grants credit without collateral to its patients, most of whom are local residents and are covered under third-party payer agreements.

COMPASSION HEALTH TOLEDO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2020:

	Amount
Leasehold improvements	\$ 79,495
Machinery and equipment	53,102
Furniture and fixtures	6,835
Depreciable property and equipment, at cost	139,432
Less: accumulated depreciation	(32,979)
Depreciable property and equipment, net	106,453
Construction in progress	91,928
Total property and equipment, net	\$ 198,381

NOTE 4: FAIR VALUE MEASUREMENTS

As defined in FASB ASC 820, fair value is the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Inputs - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs - Significant other observable inputs other than Level 1 quoted prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. There are no level 2 fair value measurements as of December 31, 2020.

Level 3 Inputs - Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. There are no level 3 fair value measurements as of December 31, 2020.

Assets Measured on a Recurring Basis: Assets measured at fair value on a recurring basis are summarized below as of December 30, 2020:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 1,159	\$ -	\$ -	\$ 1,159
Total assets at fair value	\$ 1,159	\$ -	\$ -	\$ 1,159

NOTE 5: RELATED PARTY TRANSACTIONS

During the year ending December 31, 2020, the Organization purchased certain leasehold improvements from an organization owned by a board member. Total leasehold improvements purchased was \$78,006 for the year ended December 31, 2020. This related party also provides management and maintenance services to the Organization. The Organization incurred management and maintenance expenses in the amount of \$10,869 for the year ended December 31, 2020.

COMPASSION HEALTH TOLEDO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: GOVERNMENT ASSISTANCE

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed. The CARES Act had impact on several matters. The Payroll Protection Program (“PPP”), administered by the Small Business Administration (SBA), allows eligible entities to apply for government assistance to help employers keep their workforce employed during the Coronavirus (“COVID-19”) crisis.

In April 2020, the Organization entered into an agreement for government assistance under PPP of the CARES. The unsecured PPP loan had a principal amount of \$67,500 and was set to mature in April 2022. The note originally required monthly payments of principal and accrued interest calculated at a fixed rate of 1% beginning in November 2020. The Organization used the loan proceeds for allowable payroll and other costs to qualify for loan forgiveness as specified in the CARES Act. Management has elected to apply ASC 958-605 to the funds received as part of the PPP program as it had high confidence that the Organization is an eligible recipient and meets conditions for forgiveness of the loan. Forgivable expenses incurred and recognized as grant revenue under the program were \$67,500 for the year ended December 31, 2020. In December 2020, the Organization received formal forgiveness of the PPP loan.

NOTE 7: LIQUIDITY AND FUNDS AVAILABLE

The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of December 31, 2020 because of contractual or donor-imposed restrictions or internal designations. The Organization’s financial assets available within one year of the statements of financial position date for general expenditure are as follows:

Financial assets:	
Cash and cash equivalents	\$ 596,262
Patient accounts receivable, net	66,549
Grants and other receivables	23,813
Investments in marketable securities	1,159
Financial assets, at year-end	<u>687,783</u>
Less those unavailable for general expenditure within one year, due to:	
Contractual or donor-imposed restrictions:	
Donor-restricted contributions (excludes time restrictions)	<u>(35,114)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 652,669</u></u>

Liquidity Policy

As part of the Organization’s liquidity management, it maintains a sufficient level of operating cash and short-term investments to be available as its general expenditures, liabilities, and other obligations come due.