



**CPAs & Advisors**

# North Coast Health

YEARS ENDED DECEMBER 31, 2015 AND 2014

# NORTH COAST HEALTH

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

Board of Trustees  
North Coast Health  
Lakewood, Ohio

We have audited the accompanying financial statements of North Coast Health, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

**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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

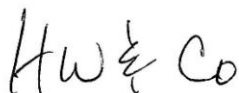
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of North Coast Health as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Cleveland, Ohio  
July 11, 2016

# NORTH COAST HEALTH

## STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2015 AND 2014

### ASSETS

	2015	2014
<b>Current assets:</b>		
Cash and cash equivalents	\$ 138,047	\$ 224,036
Accounts receivable	109,283	99,208
Inventories	449,482	391,876
Prepaid expenses	9,299	7,231
Total current assets	706,111	722,351
<b>Property and equipment:</b>		
Land	39,000	39,000
Building and building improvements	500,263	500,263
Furniture and equipment	282,696	298,915
	821,959	838,178
Less: accumulated depreciation	380,493	368,128
	441,466	470,050
<b>Other assets; deposit</b>	1,100	1,100
	<b>\$ 1,148,677</b>	<b>\$ 1,193,501</b>

### LIABILITIES AND NET ASSETS

	2015	2014
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 14,163	\$ 27,049
Lease obligations, current portion	1,052	6,312
Line of credit	39,995	
Deferred income	204,638	339,123
Total current liabilities	259,848	372,484
<b>Other liabilities:</b>		
Lease obligations, net of current portion		1,052
Total other liabilities		1,052
<b>Unrestricted net assets:</b>		
Board designated	60,384	67,194
Other	828,445	752,771
Total unrestricted net assets	888,829	819,965
	<b>\$ 1,148,677</b>	<b>\$ 1,193,501</b>

The accompanying notes are an integral part of these statements.

# NORTH COAST HEALTH

## STATEMENTS OF ACTIVITIES AND NET ASSETS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>Changes in unrestricted net assets:</b>		
Revenue and other support:		
Contributed goods	\$ 1,065,503	\$ 2,996,986
Patient services, net of contractual allowance and discounts	433,313	387,494
Contributed services	276,701	287,765
Foundations and grants	599,831	447,543
Individual contributions and other	275,219	233,913
Special events, net	138,050	152,889
Interest income	224	648
	<u>2,788,841</u>	<u>4,507,238</u>
Total revenue and other support		
	<u>2,788,841</u>	<u>4,507,238</u>
<b>Expenses:</b>		
Program services	2,467,301	4,425,409
Management and general	101,865	88,265
Fund raising	150,811	142,107
	<u>2,719,977</u>	<u>4,655,781</u>
Total expenses		
	<u>2,719,977</u>	<u>4,655,781</u>
<b>Increase (decrease) in net assets</b>	68,864	(148,543)
<b>Net assets, beginning</b>	<u>819,965</u>	<u>968,508</u>
<b>Net assets, ending</b>	<u><u>\$ 888,829</u></u>	<u><u>\$ 819,965</u></u>

The accompanying notes are an integral part of these statements.

# NORTH COAST HEALTH

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 68,864	\$ (148,543)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	39,774	35,217
Bad debts	268,528	182,031
Changes in assets and liabilities:		
Decrease (increase) in inventories	(57,606)	116,207
Decrease in grants receivable		45,788
Increase in prepaid expenses	(2,068)	(5,106)
Increase in accounts receivable	(278,603)	(281,239)
Increase (decrease) in accounts payable and accrued expenses	(12,886)	17,657
Increase (decrease) in deferred income	(134,485)	129,630
	(108,482)	91,642
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash flows used in investing activities; purchase of property and equipment</b>	(11,190)	(70,272)
<b>Cash flows from financing activities:</b>		
Payments on lease obligations	(6,312)	(6,312)
Net borrowings (repayments) under line of credit	39,995	(50,816)
	33,683	(57,128)
<b>Net cash provided by (used in) financing activities</b>		
<b>Net decrease in cash and cash equivalents</b>	(85,989)	(35,758)
<b>Cash and cash equivalents, beginning</b>	224,036	259,794
<b>Cash and cash equivalents, ending</b>	\$ 138,047	\$ 224,036

The accompanying notes are an integral part of these statements.

# NORTH COAST HEALTH

## STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Program expenses:</b>		
Salaries	\$ 691,485	\$ 691,311
Employee benefits	37,412	36,648
Payroll taxes	36,408	33,190
Total salaries and related expenses	765,305	761,149
Clinic supplies	26,841	17,498
Fees, dues and subscriptions	14,741	11,455
Information technology	62,339	55,973
Patient prescriptions and medical supplies	1,027,332	3,161,053
Postage and shipping	7,821	6,213
Facilities	52,133	47,056
Temporary labor	123,834	71,030
Office expense	26,876	32,339
Travel and meetings	5,692	5,104
Telephone	11,958	11,080
Utilities	7,908	6,609
Insurance	26,219	21,602
Bad debts	268,528	182,031
Depreciation	39,774	35,217
Total program expenses	<b>\$ 2,467,301</b>	<b>\$ 4,425,409</b>
<b>Management and general expenses:</b>		
Salaries	\$ 43,633	\$ 34,000
Employee benefits	2,912	2,502
Payroll taxes	2,833	2,266
Total salaries and related expenses	49,378	38,768
Professional fees and contract services	37,034	34,293
Bank charges	6,341	8,045
Minor equipment	350	1,143
Strategic planning	5,288	2,546
Other	3,474	3,470
Total management and general expenses	<b>\$ 101,865</b>	<b>\$ 88,265</b>
<b>Fund raising expenses:</b>		
Salaries	\$ 92,271	\$ 72,667
Employee benefits	6,157	5,348
Payroll taxes	5,992	4,843
Total salaries and related expenses	104,420	82,858
Food and beverages (promotion)	953	786
Information technology	3,019	2,869
Marketing and printing (celebration)	27,520	40,693
Annual campaign	8,651	2,558
RxCreate event	2,021	
Newsletter	3,834	8,691
Miscellaneous	393	3,652
Total fund raising expenses	<b>\$ 150,811</b>	<b>\$ 142,107</b>

The accompanying notes are an integral part of these statements.

# NORTH COAST HEALTH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

### 1. **Description of Organization and summary of significant accounting policies:**

#### **Description of Organization:**

North Coast Health (“Organization”) is a faith-based charitable clinic that provides medical care to individuals in Northeast Ohio who are uninsured, underinsured, Medicaid and Medicare beneficiaries. The majority of patients make less than \$20,000 annually and struggle with access and affordability of medical services.

In 1986, the Organization opened its doors as a free clinic, providing medical care to 123 low income individuals who fell through the cracks of the healthcare system. Over the years, the need for services has continued as gaps in the healthcare landscape remain. In 2013, the Organization was the first free, or charitable, clinic in Ohio to receive recognition as a Patient Centered Medical Home (PCMH), Level 3, by the National Committee for Quality Assurance (NCQA), shifting focus from episodic to primary care-including prevention and wellness, chronic disease management and care for minor illness and injury. In February 2016, the Organization once again received the highest level of recognition by NCQA as a PCMH, Level 3. The Organization became a charitable clinic in 2014 to accommodate the medical needs of the uninsured and underinsured which remained, or came about, after the implementation of the Affordable Care Act and Ohio Medicaid expansion. Today, the Organization offers medical clinics five days per week and on evenings and weekends and serves over 2,193 low income individuals through the clinic in Lakewood, Ohio. For the past 30 years, the Organization has held steadfast to the belief that health care is a basic human need, and that inability to pay should never be a barrier for anyone.

#### **Basis of presentation:**

The accompanying financial statements have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

#### **Financial statement presentation:**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

#### **Contributions:**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are classified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires or when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions are classified as unrestricted when restrictions are met in the same reporting period.



# NORTH COAST HEALTH

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

### 1. Description of Organization and summary of significant accounting policies (continued):

#### Contributions (continued):

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

#### Accounts receivable and patient service revenue:

Accounts receivable are due from third-party payors. Accounts receivable are recorded at the amount expected to be collected. Revenue from these services is recognized when earned. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered. Reductions are provided for contractual agreements which represent the difference between established billing rates and reimbursement rates paid by third parties.

In evaluating the collectability of accounts receivable related to self-pay patients, the Organization considers a number of factors including the age of accounts, changes in collection patterns, the composition of accounts, and general economic conditions. An allowance for uncollectible accounts of self-pay patients is recorded based upon a consideration of the likelihood that accounts will not be collected in full. The Organization has not recorded an allowance for uncollectible accounts from third-party payors.

#### Revenue recognition:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the FASB Accounting Standards Codification (ASC). The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps, (1) identify the contract(s), (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, ASU 2015-14 was issued to defer the effective dates of the revenue standard for one additional year. For nonpublic companies, ASU No. 2014-09, *Revenue from Contracts with Customers* is effective for annual reporting periods beginning after December 15, 2018 and therefore, the Organization will be required to adopt and implement this standard for the year ending December 31, 2019. Management has not yet assessed the effect of this ASU on their financial statements.

# NORTH COAST HEALTH

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

### 1. **Description of Organization and summary of significant accounting policies (continued):**

#### **Income tax status:**

The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to Section 501(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. The Organization's evaluation at December 31, 2015 revealed no tax positions that would have a material impact on the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to Federal income tax examination for years prior to 2012.

#### **Use of 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates and assumptions.

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

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **Property and equipment:**

The Organization capitalizes all property and equipment acquisitions in excess of \$1,000. Purchased equipment is capitalized at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of the assets range from five to 39 years.

#### **Inventories:**

Inventories are stated at the lower of cost (first-in, first-out method) or market.

#### **Functional expenses:**

Expenses are charged directly to program, management and general, or fund raising in general categories based on specific identification. Indirect expenses have been allocated based on salary expenditures.

# NORTH COAST HEALTH

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

### 1. Description of Organization and summary of significant accounting policies (continued):

#### Deferred income:

Grants that are conditional upon services to be performed (and where uncertainty exists as to the likelihood of meeting the conditions) are recorded as deferred revenue until the conditions are satisfied. The Organization records these grants as revenue in the year the condition is satisfied.

#### Board designated net assets:

The Organization maintains a segregated cash account for future uses of the Organization. The Board retains control of these funds and a 66% vote is required to determine a use of the funds. The board designated net assets totaled \$60,384 at December 31, 2015 and \$67,194 at December 31, 2014.

### 2. Donated services:

The Organization receives services donated by health care professionals. These services totaled \$268,163 in 2015 and \$287,765 in 2014 and have been recognized in the statements of activities and net assets.

In addition to the services donated by health care professionals, the Organization receives a significant amount of donated services from unpaid volunteers who assist in fund raising services and special projects. No amounts have been recognized in the statements of activities for these unpaid volunteers.

### 3. Line of credit:

The Organization has a credit line, available from First Federal Savings and Loan of Lakewood, in the amount of \$150,000 which expires on September 1, 2016. At December 31, 2015, \$39,995 was drawn on the line of credit. At December 31, 2014, no amount was drawn on the line of credit. Interest was payable at 6% at December 31, 2015 and December 31, 2014. The credit line was secured by Organization assets. There was interest expense related to the line of credit of \$190 in 2015 and \$606 in 2014.

### 4. Operating lease:

In December 2010, the Organization entered into an operating lease agreement for office equipment with a five-year term, expiring in February 2016. The monthly payment was \$526 with the first payment due January 2011. During March 2013, the Organization entered into a new agreement for additional office equipment which, as part of the new agreement, included proceeds of \$18,410 to be used to pay off the existing lease obligation. The Organization has recorded a lease obligation totaling \$1,052 and \$7,364 at December 31, 2015 and 2014, respectively, for the remaining payments on the office equipment lease. The new lease has monthly payments of \$797 through April, 2018 and is recorded as an operating lease on the Organization's financial statements.

# NORTH COAST HEALTH

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

### 4. Operating lease (continued):

During December 2015, the Organization entered into a new agreement for additional office equipment. The new lease has monthly payments of \$207 through December 2020 and is recorded as an operating lease on the Organization's financial statements.

In June 2011, the Organization entered into an operating lease for office space originally expiring in May 2012. The Organization has extended the term of the lease through May 31, 2017. Monthly payments ranged from \$1,200 to \$1,300 for 2014 and were \$1,300 per month for 2015. Monthly payments will be \$1,300 per month through the end of the lease term.

Minimum future lease payments under these operating leases are as follows:

2016	\$	19,600
2017		27,648
2018		5,672
2019		<u>2,484</u>
	\$	<u>55,404</u>

### 5. Beneficial interest in charitable remainder trust:

The Organization is named as a 20% beneficiary of a charitable remainder trust. The amount the Organization is to receive is based on the fair value of the Organization's interest in the trust as reported by the trustees at the time of payment upon the death of both the trustee and the trustee's wife. As of December 31, 2015, the trustee's wife remained the only surviving spouse. Distributions can be made from the trust, at the determination of the trustee's wife, to provide for payments deemed necessary or advisable to provide liberally for the care, comfort, support and maintenance of the wife. The charitable remainder trust totaled \$628,029 and \$792,556 at December 31, 2015 and 2014, respectively.

Because neither the trust termination value nor the trust termination date can be determined, no amounts have been recorded at December 31, 2015 and 2014.

### 6. Subsequent events:

In preparing these financial statements, the Organization's management has evaluated events and transactions for potential recognition or disclosure through July 11, 2016, the date the Organization's financial statements were available to be issued.