

**HEALTH SERVICES OF NORTH TEXAS, INC.  
DENTON, TEXAS**

**AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2018**

## INDEPENDENT AUDITOR'S REPORT

Management and the Board of Directors  
Health Services of North Texas, Inc.  
Denton, Texas

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements Health Services of North Texas, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of operations and changes in net assets, cash flow and functional expenses for the years 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 audits. We conducted our audits 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.

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 Health Services of North Texas, Inc.'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 Health Services of North Texas, Inc.'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 financial position of Health Services of North Texas, Inc. as of December 31, 2019 and 2018, 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.

## Change in Accounting Principle

As described in Note 16 to the financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary Information*

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2020, on our consideration of Health Services of North Texas, Inc.'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 Health Services of North Texas, Inc.'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 Health Services of North Texas, Inc.'s internal control over financial reporting and compliance.

*Durbin & Company, L.L.P.*

Durbin & Company, L. L. P.  
Lubbock, Texas  
July 14, 2020

**HEALTH SERVICES OF NORTH TEXAS, INC.  
DENTON, TEXAS**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2018**

HEALTH SERVICES OF NORTH TEXAS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS:	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,914,144	\$ 1,454,511
Short-Term Investments	560,458	555,597
Patient Accounts Receivable, Net of Allowance	346,165	353,192
Grant Receivables	556,155	803,116
Inventory of Supplies	9,186	17,546
Prepays and Other Current Assets	<u>97,149</u>	<u>199,440</u>
Total Current Assets	3,483,257	3,383,402
PROPERTY AND EQUIPMENT, NET	<u>3,019,585</u>	<u>3,043,352</u>
OTHER ASSETS	<u>11,429</u>	<u>19,600</u>
Total Assets	<u>\$ 6,514,271</u>	<u>\$ 6,446,354</u>

The accompanying notes are an integral part of these consolidated financial statements

HEALTH SERVICES OF NORTH TEXAS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET ASSETS:	2019	2018
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 44,402	\$ 42,347
Accounts Payable	152,431	342,969
Accrued Payroll, Benefits, and Related Liabilities	500,429	269,638
Other Accrued Liabilities	261,897	338,493
Total Current Liabilities	959,159	993,447
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	1,358,964	1,405,165
Total Liabilities	2,318,123	2,398,612
NET ASSETS		
Without Donor Restrictions	4,196,148	4,047,742
With Donor Restrictions	-	-
Total Net Assets	4,196,148	4,047,742
Total Liabilities and Net Assets	\$ 6,514,271	\$ 6,446,354

The accompanying notes are an integral part of these consolidated financial statements

**HEALTH SERVICES OF NORTH TEXAS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

REVENUES WITHOUT DONOR RESTRICTIONS, GAINS, AND OTHER SUPPORT:	2019	2018
Patient Service Revenue (net of contractual allowances)	\$ 13,932,999	\$ 9,315,486
Provision for Uncollectible Accounts	(7,207,560)	(3,530,535)
Net Patient Service Revenue	6,725,439	5,784,951
Government Grants	4,288,207	4,641,536
Contributions	666,683	966,692
Investment Income	5,223	4,682
Other Revenue	219,392	202,877
Total Revenues Without Donor Restrictions, Gains and Other Support	11,904,944	11,600,738
 EXPENSES:		
Salaries	5,528,290	5,530,222
Employee Benefits and Payroll Taxes	1,085,877	1,088,447
Communication	136,573	157,193
Contract Labor	1,263,872	1,210,644
Equipment Rent and Maintenance	302,171	411,163
Occupancy	471,006	513,751
Assistance to Individuals	2,074,728	1,344,448
Supplies	360,391	589,909
Other Operating	325,219	528,368
Interest Expense	68,743	69,773
Depreciation and Amortization	137,790	132,928
Total Expenses	11,754,660	11,576,846
Operating Income (Loss)	150,284	23,892
 OTHER INCOME (LOSS):		
Gain (Loss) on Disposal of Assets	(1,878)	(482,587)
Excess of Revenues, Gains and Other Support Over Expenses	\$ 148,406	\$ (458,695)
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 148,406	\$ (458,695)
Net Assets, Beginning of Year	4,047,742	4,506,437
Net Assets, End of Year	\$ 4,196,148	\$ 4,047,742

The accompanying notes are an integral part of these consolidated financial statements

**HEALTH SERVICES OF NORTH TEXAS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018**

CASH FLOWS FROM OPERATING ACTIVITIES:	2019	2018
Change in Net Assets	\$ 148,406	\$ (458,695)
Adjustments to Reconcile Changes in Net Assets		
To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	137,790	132,928
Loss on Disposal of Assets	1,878	482,587
Provision for Bad Debts	7,207,560	3,530,535
(Increase) Decrease in:		
Patient Accounts Receivable	(7,200,533)	(3,515,694)
Inventory of Supplies	8,360	-
Prepaid and Other Current Assets	349,252	(196,956)
Other Assets	8,171	(5,000)
Increase (Decrease) in:		
Accounts Payable	(190,538)	153,778
Accrued Payroll, Benefits, and Related Liabilities	230,791	(3,100)
Other Accrued Liabilities	(76,596)	335,965
Net Cash Provided by Operating Activities	624,541	456,348
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Property, Plant and Equipment	(115,901)	70,424
Change in Short-Term Investments	(4,861)	(3,713)
Net Cash Used by Investing Activities	(120,762)	66,711
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds From Issuance of Long-Term Debt	-	40,335
Payments on Long-Term Liabilities	(44,146)	(17,599)
Net Cash Provided by Financing Activities	(44,146)	22,736
Net Increase in Cash and Cash Equivalents	459,633	545,795
Cash and Cash Equivalents at Beginning of Year	1,454,511	908,716
Cash and Cash Equivalents at End of Year	\$ 1,914,144	\$ 1,454,511
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for Interest	\$ (68,743)	\$ (69,773)

The accompanying notes are an integral part of these consolidated financial statements



**HEALTH SERVICES OF NORTH TEXAS, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Ryan White	FQHC	HOPWA	Medical Center General Fund	State Services	United Way & Other Programs	Foundation and Fundraising	General and Administrative	Total
Salaries	\$ 628,658	\$ 927,792	\$ 106,898	\$ 2,712,640	\$ 76,778	\$ 660,895	\$ 96,883	\$ 317,746	\$ 5,528,290
Employee Benefits and Payroll Taxes	158,422	181,310	33,588	493,800	20,810	123,494	17,756	56,697	1,085,877
Communication	22,773	61,817	2,604	33,559	2,071	13,200	79	470	136,573
Contract Labor	186,328	493,986	8,565	419,762	9,513	145,718	-	-	1,263,872
Equipment Rent and Maintenance	51,598	128,066	5,006	84,144	2,875	25,679	393	4,410	302,171
Occupancy	92,460	74,840	12,718	246,388	6,465	21,375	1,955	14,805	471,006
Assistance to Individuals	310,491	39,557	388,195	1,250,033	17,277	68,975	200	-	2,074,728
Supplies	6,334	151,901	685	158,797	631	35,852	4,941	1,250	360,391
Other Operating	47,666	67,472	7,145	116,981	3,256	8,680	12,402	61,617	325,219
Interest Expense	-	-	-	-	-	-	-	68,743	68,743
Depreciation and Amortization	19,954	12,803	149	737	574	535	-	103,038	137,790
	<u>\$ 1,524,684</u>	<u>\$ 2,139,544</u>	<u>\$ 565,553</u>	<u>\$ 5,516,841</u>	<u>\$ 140,250</u>	<u>\$ 1,104,403</u>	<u>\$ 134,609</u>	<u>\$ 628,776</u>	<u>\$ 11,754,660</u>

The accompanying notes are an integral part of these consolidated financial statements

**HEALTH SERVICES OF NORTH TEXAS, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Ryan White	FQHC	HOPWA	Medical Center General Fund	State Services	United Way & Other Programs	Foundation and Fundraising	General and Administrative	Total
Salaries	\$ 789,303	\$ 550,947	\$ 92,863	\$ 2,992,614	\$ 167,672	\$ 480,562	\$ 133,275	\$ 322,986	\$ 5,530,222
Employee Benefits and Payroll Taxes	191,782	123,384	26,002	547,115	39,028	86,955	24,318	49,863	1,088,447
Communication	26,867	60,546	3,197	59,404	5,583	174	111	1,311	157,193
Contract Labor	207,882	547,038	8,153	351,211	20,850	65,975	431	9,104	1,210,644
Equipment Rent and Maintenance	86,939	189,507	7,039	106,666	7,502	2,612	10,303	595	411,163
Occupancy	114,159	115,003	15,351	106,930	14,507	5,591	1,014	141,196	513,751
Assistance to Individuals	399,533	7,478	453,933	391,557	67,678	24,169	100	-	1,344,448
Supplies	20,212	104,631	1,288	426,437	1,400	32,954	757	2,230	589,909
Other Operating	77,163	137,558	9,626	99,759	9,727	1,300	43,285	149,950	528,368
Interest Expense	-	-	-	5,897	-	-	-	63,876	69,773
Depreciation and Amortization	14,210	14,169	-	8,493	-	-	-	96,056	132,928
	<u>\$ 1,928,050</u>	<u>\$ 1,850,261</u>	<u>\$ 617,452</u>	<u>\$ 5,096,083</u>	<u>\$ 333,947</u>	<u>\$ 700,292</u>	<u>\$ 213,594</u>	<u>\$ 837,167</u>	<u>\$ 11,576,846</u>

The accompanying notes are an integral part of these consolidated financial statements

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The Health Services of North Texas, Inc. (the “Organization”) was organized in Texas in 1988 as a nonprofit corporation to provide services and assistance to persons impacted by HIV disease. The Organization changed its name from AIDS Services of North Texas, Inc. to Health Services of North Texas, Inc. in 2009 to reflect its efforts to expand services beyond the HIV/AIDS population. The Organization operates a range of services for HIV/AIDS and non-HIV/AIDS adults and children ranging from primary medical healthcare, mental health counseling, guardianship and nutrition. Additionally, case management services for HIV/AIDS clients include housing, insurance assistance as well as transportation services. The Organization currently services the counties of Denton and Collin.

A separate nonprofit corporation, Health Services of North Texas Foundation (the “Foundation”), exists as a support organization under the provisions of Section 509(a)(3) of the Internal Revenue Code. All significant intercompany transactions have been eliminated in the consolidated financial statements. No significant Foundation activity occurred during the year ending December 31, 2019.

**Use of Estimates** - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - The Organization considers highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

**Patient Accounts Receivable** - The allowance for estimated uncollectible patient accounts receivable is maintained at a level which, in management’s judgment, is adequate to absorb patient account balance write-offs inherent in the billing process. The amount of the allowance is based on management’s evaluation of the collectability of patient accounts receivable, including the nature of the accounts, credit concentrations, and trends in historical write-off experience, specific impaired accounts, and economic conditions. Allowances for uncollectibles and contractuals are generally determined by applying historical percentages to financial classes within accounts receivable. The allowances are increased by a provision for bad debt expenses and contractual adjustments, and reduced by write-offs, net of recoveries.

**Sliding Fee Discounts** – The Clinic provides care to patients who meet certain criteria under its sliding fee discount policy for a nominal fee or at amounts less than its established rates. Sliding fee discount eligibility is based on family size and household income, and no other factors. It is available to assist with patient responsibility for all patients who qualify, regardless of their insurance coverage. Because the Clinic does not pursue collection of the discounted charges, discounted sliding fee charges are excluded from net patient revenue.

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments** – Investments are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

**Inventory of Supplies** - Inventory is stated at historical cost using the First-In, First-Out (FIFO) method

**Property and Equipment** – Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Maintenance repairs and minor renewals are expensed as incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the donated assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Organization capitalizes all assets over \$5,000 and provides for depreciation of property and equipment by the straight line method which is designed to amortize the cost of such equipment over its useful life as follows:

Land Improvements	15 to 20 years
Building (Components)	5 to 50 years
Fixed Equipment	7 to 25 years
Major Moveable Equipment	3 to 20 years

**Net Assets with Donor Restrictions** - Net assets are limited by donors to a specific time period or purpose, and net assets that have been restricted by donors to be maintained by the Organization in perpetuity.

**Excess of Revenues, Gains, and Other Support over Expenses** - The accompanying statements of operations include excess of revenues, gains, and other support over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenues, gains, and other support over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Federal Income Taxes** – Health Services of North Texas is a not-for-profit corporation and is qualified as a tax-exempt organization; therefore, no expense has been provided for income taxes in the accompanying consolidated financial statements.

**Donor-restricted Gifts** - Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts received with donor stipulations that limit the use of the donated assets are reported as support with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by the Organization, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from excess of revenues, gains, and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Cost Allocation** - The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation and amortization and occupancy, which are allocated on a square footage basis. Telephone costs are allocated based on line counts by functional category.

**Net Patient Service Revenue** – The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Risk Management** – The Organization is exposed to various risks of loss from torts: theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters.

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Newly Adopted Accounting Pronouncement:**

**Accounting Standards Update (ASU) No. 2018-08** – In June 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 was implemented by FASB to clarify and improve the scope and the accounting guidance for contributions received and contributions made. ASU 2018-08 will also assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for annual periods beginning after December 15, 2018.

**Pending Adoption of Recent Accounting Pronouncements:**

**Accounting Standards Update (ASU) No. 2014-09** – In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The FASB and the International Accounting Standards Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for the U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) that would: 1) Remove inconsistencies and weaknesses in revenue requirements; 2) Provide a more robust framework for addressing revenue issues; 3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; 4) Provide more useful information to users of financial statements through improved disclosure statements; 5) Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

**Accounting Standards Update (ASU) No. 2016-02** – In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 was implemented by FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing the key information about leasing transactions.

**Accounting Standards Update (ASU) No. 2020-05** – In June 2020, the Financial Accounting Standards Board (“FASB”) issued ASU 2020-05 – Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842). The FASB issued this Update as a limited deferral of the effective date (including amendments issued after the issuance of the original Update) to provide immediate, near-term relief for certain entities for whom ASU 2014-09 and ASU 2016-02 are either currently effective or imminently effective. The effective date for ASU 2014-09 and ASU 2016-02 has been postponed from reporting periods beginning after December 15, 2018 to reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

**Reclassifications** – Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements. These reclassifications had no effect on the change in net position.



**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 2 - NET PATIENT SERVICE REVENUE**

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare** – Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

**Medicaid** – Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under the plan.

**Other** – The Organization has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per encounter, discounts from established charges, and prospectively determined daily rates.

The Organization has been approved to file a low utilization cost report which is for reporting purposes only, and does not include a settlement. Accordingly, the Organization has not provided an estimate for outstanding cost report settlements.

Net patient service revenue is comprised as follows:

	<u>2019</u>	<u>2018</u>
Clinic Patient Services	\$15,981,048	\$ 9,447,520
Third-Party Contractual Adjustments	(2,048,049)	(132,034)
Provision for Bad Debts	<u>(7,207,560)</u>	<u>(3,530,535)</u>
Net Patient Service Revenue	<u>\$ 6,725,439</u>	<u>\$ 5,784,951</u>

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

The Organization maintains cash and cash equivalents at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2019 and 2018, the bank balance and carrying value is categorized as follows:

	<u>2019</u>	<u>2018</u>
Amount insured by the FDIC	\$ 939,769	\$ 933,558
Uncollateralized	<u>1,684,124</u>	<u>1,176,023</u>
Total Bank Balance	<u>\$ 2,623,893</u>	<u>\$ 2,109,581</u>
Total Carrying Value	<u>\$ 2,474,602</u>	<u>\$ 2,010,108</u>

**NOTE 4 – SHORT TERM INVESTMENTS**

The Organization's short term investments are reported at fair value, and consist of certificates of deposit with balances of \$560,458 and \$555,597 at December 31, 2019 and 2018, respectively. The certificates of deposit mature within the next fiscal year.

**NOTE 5 – PATIENT ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross Accounts Receivable	\$ 541,483	\$ 534,121
Less: Allowance for Bad Debts and Contractuals	<u>(195,318)</u>	<u>(180,929)</u>
Accounts Receivable, Net of Allowance	<u>\$ 346,165</u>	<u>\$ 353,192</u>



**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 6 - CONCENTRATION OF CREDIT RISK**

**Patient Accounts Receivable** - The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payers at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	12%	9%
Medicaid	40%	43%
Commercial	9%	8%
Self Pay	<u>39%</u>	<u>40%</u>
Total	<u>100%</u>	<u>100%</u>

**NOTE 7 – PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and Land Improvements	\$ 257,000	\$ 257,000
Buildings and Improvements	2,417,426	2,394,475
Furniture, Fixtures and Equipment	<u>850,027</u>	<u>790,005</u>
	3,524,453	3,441,480
Less Accumulated Depreciation	<u>(504,868)</u>	<u>(398,128)</u>
Property and Equipment, Net	<u>\$ 3,019,585</u>	<u>\$ 3,043,352</u>

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$137,790 and \$132,928.

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 8 – LONG-TERM DEBT**

A summary of long-term debt at December 31, 2019 and 2018, follows:

	<u>2019</u>	<u>2018</u>
4.75% Note Payable, with monthly principal and interest payments of \$9,185, and a balloon payment due July 1, 2024. Secured by deed of trust.	<u>\$ 1,403,366</u>	<u>\$ 1,447,512</u>
Total Long-Term Debt	1,403,366	1,447,512
Less: Current Portion	<u>(44,402)</u>	<u>(42,347)</u>
Non-Current Portion	<u>\$ 1,358,964</u>	<u>\$ 1,405,165</u>

Scheduled principal repayments on long-term debt are as follows:

For the Year Ending December 31,	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 44,402	\$ 65,813
2021	46,558	63,657
2022	48,818	61,397
2023	51,188	59,027
2024	<u>1,212,400</u>	<u>33,292</u>
Total	<u>\$ 1,403,366</u>	<u>\$ 283,186</u>

**NOTE 9 – PENSION PLAN**

**Retirement Plan** – The Organization has a retirement plan, under Section 403(b) of the Internal Revenue Code, which covers all eligible employees. Under this plan, employees may defer up to 25% of their base salary on a pre-tax basis through contributions to the Plan, subject to annual maximum dollar limits. The Board of Directors elected to have the Organization match 100% of each employee’s elective contributions up to 5% of the employee’s base salary. For 2019 and 2018, the employee contributions to the plan were \$190,794 and \$153,320, respectively. For 2019 and 2018, the matching contributions expense recorded on the books was \$94,527 and \$81,325, respectively.

**HEALTH SERVICES OF NORTH TEXAS, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 10 - INCOME TAXES**

Health Services of North Texas, Inc. is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization evaluates and accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income Taxes (formerly FASB Interpretation 48 (FIN 48) Accounting for Uncertainty in Income Taxes. This standard requires certain disclosures about uncertain income tax positions. The Organization evaluates any uncertain tax positions using the provisions of ASC 450, Contingencies. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying consolidated financial statements. The Organization has filed all applicable tax returns. The Organizations Forms 990, *Return of Organization Exempt from Income Tax*, are subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods.

**NOTE 11 – 340B DRUG PROGRAM**

The Organization participates in the 340B “Drug Discount Program” which enables qualifying healthcare providers to purchase drugs from pharmaceutical suppliers at a substantial discount. Pharmacy revenue is recognized as pharmaceuticals are dispensed. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under a contract arrangement with the District.

Reported 340B revenue for the year ended December 31, 2019 and 2018 of \$1,121,800 and \$179,556, respectively, consists of reimbursements from the network of participating pharmacies, net of the initial purchase price of the drugs and is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position. At December 31, 2019 and 2018, the Organization recorded a 340B drug program receivable of \$76,578 and \$49,440, respectively. The receivable is included in prepaid expenses and other current assets in the accompanying statements of net position.

**NOTE 12 – GRANT REVENUE**

**FQHC Grant** - The Organization is the recipient of a Consolidated Health Centers Cluster (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care services delivery for residents in Denton, Collin, Hunt, Rockwall, and Kaufman Counties. Terms of the grant generally provide for funding of the Organization’s operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended December 31, 2019 and 2018, the Organization received \$1,671,513, and \$1,748,072 in CHC grant funds. At December 31, 2019 and 2018, the Organization has set up a receivable of \$120,766 and \$125,901 for funds expended before year end. Funding for the year ending December 31, 2020, is expected to be approximately \$1,651,000.

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 12 – GRANT REVENUE (CONTINUED)**

**Ryan White Grants** – The Organization is the recipient of Grants from Dallas County on Behalf of Dallas County Health and Human Services, which is funded by the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care services to persons with HIV/AIDS that reside in Denton, Collin, Dallas, Ellis, Henderson, Hunt, Rockwall, and Kaufman Counties. Terms of the grant generally provide for funding of the Organization’s operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended December 31, 2019 and 2018, the Organization received \$1,492,457 and \$1,649,940 in Ryan White grant funds. At December 31, 2019 and 2018, the Organization has set up a receivable of \$264,631 and \$445,194 respectively, for funds expended before year end. Funding for the year ending December 31, 2020, is expected to be approximately \$1,500,000.

**Ryan Whites State Services Grant** – The Organization is the recipient of funds from Dallas County Health & Human Services, which is funded under the Title XXVI of the PHS Act, as amended by the Ryan White HIV/AIDS Treatment Extension Act of 2009: State of Texas HIV Health and Social Services Grant (State Services Grant). The general purpose of this contract is to provide delivery of services to persons with HIV/AIDS and their family members or caregivers who reside within the Dallas and/or Sherman-Denison HIV Services Delivery Area. During the years ended December 31, 2019 and 2018, the Organization received \$178,292 and \$321,617 respectively. Funding for the year ending December 31, 2020 is expected to be \$300,000.

**Housing Opportunities for Persons with AIDS Grant** – The Organization is the recipient of a Housing Opportunities for Persons with AIDS (HOPWA) Grant from the City of Dallas, which is funded by the U.S. Department of Housing and Urban Development. The general purpose of the grant is to provide housing and supportive services assistance to low-income persons with HIV/AIDS that reside in the Dallas Eligible Metropolitan Statistical Area. Terms of the grant generally provide for funding of the Organization’s operations based on an approved budget. Grant revenue is recognized as qualifying expenditures and is incurred over the grant period. During the years ended December 31, 2019 and 2018, the Organization received \$546,281 and \$545,662 in HOPWA grant funds. At December 31, 2019 and 2018, the Organization has set up a receivable of \$86,154 and \$141,146, respectively, for funds expended before year end. Funding for the year ending December 31, 2020, is expected to be approximately \$600,000.

**Women’s Health and Family Planning Grant** – The Organization is the recipient of a grant from the Women’s Health and Family Planning Association of Texas (WHFPT) which is funded by the U.S. Department of Health and Human Services. The general purpose of this grant is to provide medical counseling, educational and outreach activities in the area of family planning. During the years ended December 31, 2019 and 2018, the Organization received \$272,236 and \$238,947 in WHFPT grant funds. Funding for the year ending December 31, 2020, is expected to be approximately \$220,000

In addition to these grants, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis. During 2019 and 2018 the Organization has received \$127,428 and \$137,299 through these grants.

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 13 – IN-KIND CONTRIBUTIONS**

**In-Kind Rent** – The Organization is the recipient of in-kind rent from two tenants. In-kind rent revenue is recognized as qualifying expenditures and is incurred over the contribution period. During the years ended December 31, 2019 and 2018, the Organization received approximately \$125,000 and \$125,000, respectively, from Epic Development, aka Lincoln Harris Inc. The Organization received \$12,000 in 2019 and \$16,000 in 2018 from the Kong Family.

**In-Kind Medical Goods** – The Organization is the recipient of in-kind medical relief goods from Direct Relief. Direct Relief is a public benefit, non-denominational and non-political organization emphasizing self-help through medical supplies and services for better health care. During 2019 and 2018, Direct Relief donated medical supplies valued approximately \$87,000 and \$335,000, respectively. In-kind revenue is recognized as qualifying expenditures as the Organization utilizes the medical goods.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

**Litigation** - The Organization is from time to time subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Organization's financial position or results of operations.

**Medical Malpractice Claims** - The U.S. Department of Health and Human Services has deemed the Organization and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Organization's claim experience, no such accrual has been made. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

**Operating Leases** - The Organization leases various equipment and facilities under operating leases expiring at various dates through 2029. Total rental expense in 2019 and 2018 for all operating leases was \$294,418 and \$374,197, respectively.

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

The Organization is obligated under office lease agreements through 2029 in connection with its Denton, Wylie and Plano office locations. The future minimum lease payments under these lease agreements at December 31, 2019 are as follows.

For the Year Ending December 31,	
2020	247,755
2021	278,526
2022	151,926
2023	80,775
2024	80,775
2025 - 2029	403,875
Total	<u>\$ 1,243,632</u>

**NOTE 15 – LIQUIDITY AND AVAILABILITY**

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are:

	<u>2019</u>	<u>2018</u>
Financial Assets at Year-End		
Cash and Cash Equivalents	\$ 1,914,144	\$ 1,454,511
Short-Term Investments	560,458	555,597
Patient Accounts Receivable, Net of Allowance	346,165	353,192
Other Receivables	653,304	1,002,556
Total Financial Assets	<u>3,474,071</u>	<u>3,365,856</u>
Financial Assets Available to Meet General Expenditures		
Within One Year	<u>\$ 3,474,071</u>	<u>\$ 3,365,856</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

**HEALTH SERVICES OF NORTH TEXAS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE**

In 2018, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. The Organization has retrospectively applied the ASU to all periods presented except the Organization has opted to present the functional expenses information for 2018 only, as permitted under the ASU in the year of adoption. A summary of the change is as follows:

**Statement of Financial Position**

- The statement of financial position distinguishes between two new classes of net assets – net assets without donor restrictions and net assets with donor restrictions. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

**Notes to the Financial Statements**

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.
- Expenses are reported by both nature and function in one location.

This change had no impact on previously reported total change in net assets.

**NOTE 17 – SUBSEQUENT EVENTS**

Subsequent to year end, the US Department of Health and Human Services provided \$179,424 in combined funding to the Organization from funds appropriated in the Public Health and Social Services Emergency Fund for provider relieve (“Relief Fund”) under Division B of Public Law 116-127. By accepting the Relief Funds, the Organization must maintain compliance with the Secretary’s terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the Organization only for health care related expenses or lost revenues that are attributable to coronavirus. The Organization’s commitment to full compliance with all terms and conditions is material to the Secretary’s decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the Secretary to recoup some or all of the payment made from the Relief Fund.

Also, in April 2020, the Organization was notified that it has been approved for a loan in the amount of \$1,254,233 which was provided under Division A, Title 1, Section 1102 Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (“CAREs Act”). The provisions of the CAREs Act amend the Small Business Act (“SBA ACT”) to include a provision for the PPP. Beginning in April 2020, the PPP allows certain entities to apply for a loan to cover the cost of specific expenses incurred during the period February 15, 2020, through June 30, 2020 (“covered period”). The primary purpose of the loan is to provide small businesses the opportunity to maintain employment levels during the covered period. Under the provisions of the SBA Act, principal and interest payments are deferred for at least 6 months up to 1 year after disbursement.



**HEALTH SERVICES OF NORTH TEXAS, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018 (CONTINUED)**

**NOTE 17 – SUBSEQUENT EVENTS (CONTINUED)**

If the Organization submits sufficient documentation to the lender to support that the loan proceeds were used in accordance with the provisions of the SBA Act, the loan will be fully forgiven. If sufficient documentation is not provided, or the funds were not fully expended as required, the lender may determine that the loan, or a portion of it, will not be forgiven. If any portion of the loan is not forgiven, the loan will be payable over a period of two years at an interest rate of 1.014%.

The date to which events occurring after December 31, 2019, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is July 14, 2020 which is the date on which the consolidated financial statements were available to be issued.



## **Supplementary Information**

**HEALTH SERVICES OF NORTH TEXAS, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
YEAR ENDED DECEMBER 31, DECEMBER 31, 2019**

<b>Federal Grantor/Pass-Through Grantor/ State Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant or Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Direct Programs</u>			
Consolidated Health Centers Cluster	93.224	H80CS24197	\$ 1,671,513
<u>Passed Through Dallas County Health and Human Services</u>			
HIV Emergency Relief Project Grant	93.914	2016-053-6590	1,160,590
HIV Care Formula Grant	93.917	2016-053-6590	331,867
<u>Passed Through the Womens Health and Planning Association of Texas Family Planning Services</u>			
Family Planning Services	93.217	2018-2019	75,001
Family Planning Services	93.217	2019-2020	197,235
Total Family Planning Services			<u>272,236</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>3,436,206</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<u>Passed Through City of Dallas</u>			
		HOU-2016-0001268	
Housing Opportunities for Persons with AIDS	14.241	FY 18-19	410,811
Housing Opportunities for Persons with AIDS	14.241	OHS-2019-0001140	135,470
Total Housing Opportunitites for Persons with AIDS			<u>546,281</u>
<u>Passed Through City of Denton</u>			
Community Development Block Grant	14.218		48,906
<u>Passed Through City of Lewisville</u>			
Community Development Block Grant	14.218	0179-19-RES	27,689
<b>Total U.S. Department of Housing and Urban Development</b>			<u>622,876</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 4,059,082</u>
<b>STATE AWARDS</b>			
<u>Passed Through Dallas County Health &amp; Human Services</u>			
Ryan White State Services Grant		2016-080-6617	<u>\$ 178,292</u>

*The accompanying notes are an integral part of this schedule*

**Health Services of North Texas, Inc.**  
**Notes to Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended December 31, 2019**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal and state awards (the “Schedule”) includes the federal and state award activity of Health Services of North Texas, Inc. under programs of the federal and state of Texas governments for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Health Services of North Texas, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Health Services of North Texas, Inc.

**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.

**NOTE 3 – INDIRECT COST RATE**

Health Services of North Texas, Inc. has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 4 – SUBRECIPIENTS**

Pass-through entity identifying numbers are presented where available.

**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***

Management and the Board of Directors  
Health Services of North Texas, Inc.  
Denton, Texas

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 Health Services of North Texas, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of operations and changes in net assets, cash flow and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 14, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Health Services of North Texas, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Health Services of North Texas, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Services of North Texas, Inc.'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 consolidated 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 Health Services of North Texas, Inc.'s consolidated 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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Health Services of North Texas, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Durbin & Company, L.L.P.*

Durbin & Company, L. L. P.  
Lubbock, Texas  
July 14, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

Management and the Board of Directors  
Health Services of North Texas, Inc.  
Denton, Texas

**Report on Compliance for Each Major Federal Program**

We have audited Health Services of North Texas, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Health Services of North Texas, Inc.'s major federal programs for the year ended December 31, 2019. Health Services of North Texas, Inc.'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 Health Services of North Texas, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Health Services of North Texas, Inc.'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 Health Services of North Texas, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, Health Services of North Texas, Inc. 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, 2019.

**Report on Internal Control over Compliance**

Management of Health Services of North Texas, Inc. 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 Health Services of North Texas, Inc.'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 Health Services of North Texas, Inc.'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.

*Durbin & Company, L.L.P.*

Durbin & Company, L. L. P.  
Lubbock, Texas  
July 14, 2020

**HEALTH SERVICES OF NORTH TEXAS, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2019**

**SUMMARY OF AUDITOR’S RESULTS**

1. The auditor’s report expresses an unmodified opinion on whether the consolidated financial statements of Health Services of North Texas, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the consolidated financial statements are reported in the 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*.
3. No instances of noncompliance material to the consolidated financial statements of Health Services of North Texas, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award programs for Health Services of North Texas, Inc. expresses an unmodified opinion on all major federal programs.
6. There are no audit findings related to major programs that are required to be reported in accordance with 2 CFR §200.516(a).
7. The programs tested as a major program were:

<b>Cluster/Program</b>	<b>CFDA Number</b>
Consolidated Health Centers Cluster	93.224

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Health Services of North Texas, Inc. was determined to be a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No matters reportable

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

No matters reportable