

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

**For The Years Ended
December 31, 2015 and 2014**

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

2950 - 50th Street
Lubbock, Texas 79413
(806) 791 - 1591
Fax (806) 791-3974

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 of Health Services of North Texas, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows 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, 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.

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 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 11, 2016, 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 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 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 11, 2016

HEALTH SERVICES OF NORTH TEXAS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

ASSETS:	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,752,122	\$ 496,225
Short-Term Investments	546,651	544,415
Assets Restricted by Contributors or Grantors	-	82,651
Patient Accounts Receivable, Net of Allowance	230,511	174,207
Grant Receivables	587,389	696,724
Inventory of Supplies	<u>42,501</u>	<u>12,307</u>
Total Current Assets	3,159,174	2,006,529
PROPERTY AND EQUIPMENT, NET	<u>1,463,656</u>	<u>329,054</u>
OTHER ASSETS	<u>14,600</u>	<u>14,600</u>
Total Assets	<u><u>\$ 4,637,430</u></u>	<u><u>\$ 2,350,183</u></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, 2015 AND 2014

LIABILITIES AND NET ASSETS:	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES		
Notes Payable	\$ 249,500	\$ -
Accounts Payable	111,195	112,324
Accrued Payroll, Benefits, and Related Liabilities	225,902	227,589
Other Accrued Liabilities	<u>442</u>	<u>-</u>
Total Current Liabilities	587,039	339,913
NET ASSETS		
Unrestricted	4,050,391	1,927,619
Temporarily Restricted	<u>-</u>	<u>82,651</u>
Total Net Assets	<u>4,050,391</u>	<u>2,010,270</u>
Total Liabilities and Net Assets	<u><u>\$ 4,637,430</u></u>	<u><u>\$ 2,350,183</u></u>

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

HEALTH SERVICES OF NORTH TEXAS, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT	2015	2014
Patient Service Revenue (net of contractual allowances)	\$ 5,817,771	\$ 1,979,166
Provision for Uncollectible Accounts	<u>(1,754,415)</u>	<u>(1,228,006)</u>
Net Patient Service Revenue	4,063,356	751,160
Government Grants	4,809,162	4,076,550
Contributions	577,393	709,615
Net Assets Released From Restrictions	82,651	71,508
Investment Income	6,417	7,151
Other Revenue	<u>1,060,277</u>	<u>136,138</u>
Total Operating Revenues	10,599,256	5,752,122
EXPENSES:		
Salaries	3,877,442	2,614,889
Employee Benefits and Payroll Taxes	835,718	500,000
Communication	109,208	77,774
Contract Labor	640,948	211,014
Equipment Rent and Maintenance	217,570	136,128
Occupancy	336,585	269,168
Assistance to Individuals	1,648,511	1,164,196
Supplies	350,371	239,493
Other Operating	362,501	251,111
Depreciation and Amortization	<u>93,188</u>	<u>65,157</u>
Total Operating Expenses	8,472,042	5,528,930
Operating Gain (Loss)	<u>2,127,214</u>	<u>223,192</u>
NONOPERATING REVENUES (EXPENSES):		
Interest Expense	<u>(4,442)</u>	<u>-</u>
Increase in Unrestricted Net Assets	2,122,772	223,192
TEMPORARILY RESTRICTED NET ASSETS		
Temporarily Restricted Contributions	-	49,520
Net Assets Released From Restrictions	<u>(82,651)</u>	<u>(71,508)</u>
Decrease in Temporarily Restricted Net Assets	<u>(82,651)</u>	<u>(21,988)</u>
Increase in Net Assets	2,040,121	201,204
Net Assets, Beginning of Year	<u>2,010,270</u>	<u>1,809,066</u>
Net Assets, End of Year	<u>\$ 4,050,391</u>	<u>\$ 2,010,270</u>

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, 2015 AND 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	2015	2014
Change in Net Assets	\$ 2,040,121	\$ 201,204
Adjustments to Reconcile Changes in Net Assets		
To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	93,188	65,157
Provision for Bad Debts	1,754,415	1,228,006
(Increase) Decrease in:		
Patient Accounts Receivable	(1,810,719)	(1,378,521)
Temporarily Restricted Net Assets	(82,651)	(21,988)
Inventory of Supplies	(30,194)	181
Prepaid and Other Current Assets	109,335	(236,496)
Other Assets	-	(1,930)
Increase (Decrease) in:		
Accounts Payable	(1,129)	23,114
Accrued Payroll, Benefits, and Related Liabilities	(1,687)	(27,510)
Other Accrued Liabilities	442	-
Net Cash Provided by Operating Activities	2,071,121	(148,783)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Property, Plant and Equipment	(1,227,790)	(58,208)
Change in Short-Term Investments	(2,236)	118,063
Cash Invested in Temporarily Restricted Assets	82,651	21,988
Net Cash Used by Investing Activities	(1,147,375)	81,843
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds From Issuance of Long-Term Debt	249,500	-
Net Increase in Cash and Cash Equivalents	1,173,246	(66,940)
Cash and Cash Equivalents at Beginning of Year	578,876	645,816
Cash and Cash Equivalents at End of Year	\$ 1,752,122	\$ 578,876
RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF FINANCIAL POSITION:		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	\$ 1,752,122	\$ 496,225
Assets Restricted by Contributors or Grantors - Current	-	82,651
	\$ 1,752,122	\$ 578,876

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, 2015

	Ryan White Part A	Ryan White Part B	FQHC	HOPWA	Denton County	Medical Center General Fund	State Services	United Way & Other Programs	Foundation and Fundraising	Management and General	Total
Communication	\$ 14,003	\$ 11,182	\$ 26,678	\$ 2,626	\$ 4,005	\$ 26,516	\$ 4,613	\$ 10,754	\$ 400	\$ 8,829	\$ 109,606
Conference Fees	369	500	820	-	295	281	100	735	240	-	3,340
Contract Labor	41,097	14,915	219,088	2,733	3,302	254,033	24,713	49,600	3,412	28,055	640,948
Depreciation & Amortization	-	-	-	-	-	52,211	-	625	7,520	32,832	93,188
Equipment	8,752	1,548	131,400	1,025	2,147	46,913	1,008	14,730	2,851	7,196	217,570
Fringe Benefits	70,880	13,008	78,549	24,727	31,202	242,853	10,303	24,477	17,411	23,682	537,092
Insurance	21,399	9,319	13,374	1,065	1,592	4,536	4,662	497	703	-	57,147
Agency Travel	2,003	3,437	11,230	1,494	997	11,391	349	6,253	226	3,978	41,358
Misc. Expenses	-	-	-	-	-	25	-	-	-	306	331
Bad Debt Expense	-	-	-	-	-	76,419	-	-	-	-	76,419
Event Expenses	-	-	-	-	-	14	-	-	37,509	870	38,393
Occupancy	42,409	36,326	53,171	5,784	3,557	157,453	4,370	4,515	-	29,000	336,585
Payroll Taxes	72,298	18,760	55,634	9,354	16,753	83,201	6,734	17,797	8,366	9,728	298,625
Postage	3,435	801	197	144	-	2,530	591	129	449	204	8,480
Printing	3,595	666	2,152	470	148	29,964	417	3,391	1,185	221	42,209
Professional Services	12,677	7,282	9,300	1,418	147	10,904	658	520	-	3,932	46,838
Salaries	704,571	167,772	695,427	95,258	209,636	1,484,944	70,508	208,017	109,138	132,171	3,877,442
Staff Development	608	872	10,285	-	802	2,810	20	1,071	402	1,787	18,657
Assistance to Clients	361,237	135,852	61,063	381,900	5,892	560,068	56,558	85,941	-	-	1,648,511
Dues & Other	989	802	14,928	-	-	3,451	525	651	5,662	1,924	28,932
Supplies	20,105	35,709	153,244	525	4,689	60,386	3,654	66,202	508	5,349	350,371
Total EXPENSES	\$ 1,380,427	\$ 458,751	\$ 1,536,540	\$ 528,523	\$ 285,164	\$ 3,110,903	\$ 189,783	\$ 495,905	\$ 195,982	\$ 290,064	\$ 8,472,042

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, 2014

	Ryan White	Ryan White				Denton	Medical	State	United			
	Part A	Part B	FQHC	HOPWA	HUD	County	Center	Services	Way &	Fundraising	Management	Total
							General		Other		and General	
							Fund		Programs			
Communication	\$ 16,514	\$ 7,855	\$ 7,675	\$ 1,441	\$ 2,599	\$ 10,058	\$ 17,001	\$ 7,402	\$ 110	\$ 6,119	\$ 1,000	\$ 77,774
Conference Fees	-	-	6,338	-	-	700	-	-	-	570	560	8,168
Contract Labor	36,578	12,561	68,790	1,392	3,839	8,620	37,282	8,157	12,004	9,494	12,297	211,014
Depreciation & Amortization	11,937	4,123	-	-	-	-	37,374	-	-	213	11,510	65,157
Equipment	9,142	5,565	27,894	354	1,077	10,059	55,963	3,580	17,630	1,344	3,520	136,128
Fringe Benefits	77,162	25,364	48,518	21,232	9,992	27,753	32,990	17,550	4,243	16,059	23,521	304,384
Insurance	24,868	7,097	13,589	1,175	-	3,048	406	5,250	-	2,048	1,136	58,617
Agency Travel	3,217	1,076	4,733	509	123	5,516	9,728	171	833	269	3,349	29,524
Misc. Expenses	-	-	-	-	-	26	1,202	-	3,841	-	2,933	8,002
Event Expenses	-	-	-	-	-	-	2,857	-	-	42,122	-	44,979
Occupancy	63,403	20,112	34,907	4,978	4,940	22,828	27,665	1,500	20,074	24,243	44,518	269,168
Payroll Taxes	41,053	20,864	33,273	8,534	4,557	16,631	27,131	9,122	13,100	11,045	10,306	195,616
Postage	1,916	976	1,602	775	547	82	431	347	19	714	128	7,537
Printing	1,457	742	13,527	228	211	1,159	4,425	680	647	1,424	5,519	30,019
Professional Services	8,874	1,713	9,975	1,482	217	549	1,365	598	6,349	1,572	54	32,748
Salaries	539,750	227,192	452,606	109,052	60,721	242,432	474,869	108,309	124,178	140,578	135,202	2,614,889
Staff Development	357	91	3,322	10	18	487	578	19	1,181	239	-	6,302
Assistance to Clients	390,235	113,649	45,854	322,224	106,571	12,339	65,881	52,174	54,429	840	-	1,164,196
Dues & Other	1,049	204	16,210	32	209	1,721	1,102	144	1,702	2,838	4	25,215
Supplies	28,275	4,226	98,377	1,481	1,192	8,656	59,788	1,198	23,994	1,388	10,918	239,493
Total EXPENSES	\$ 1,255,787	\$ 453,410	\$ 887,190	\$ 474,899	\$ 196,813	\$ 372,664	\$ 858,038	\$ 216,201	\$ 284,334	\$ 263,119	\$ 266,475	\$ 5,528,930

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, 2015 AND 2014

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, Collin, Hunt, Rockwall, and Kaufman.

A separate nonprofit corporation, Health Services of North Texas Foundation (the “Foundation”), has been formed. The Foundation is a support organization under the provisions of Section 509(a)(3) of the Internal Revenue Code. The purpose of the Foundation is to support and benefit the Organization by, among other things, solicit, receive, hold, invest and manage gifts, grants, contributions and bequests which are intended to benefit the long-term goals, purposes and objectives of the Organization. All significant intercompany transactions have been eliminated in the consolidated financial statements.

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 contractals 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.

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.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2015 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Temporarily Restricted Net Assets - Temporarily restricted net assets are limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

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 either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by the Organization, temporarily restricted net assets are reclassified as unrestricted net assets 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 unrestricted contributions in the accompanying consolidated financial statements.

Functional Expenses – The costs of providing the Organization’s various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2015 (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. The Organization is required to file the IRS Form 990. The Organization's Forms 990 for 2013, 2014, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

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.

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.

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.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014 (CONTINUED)

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

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>2015</u>	<u>2014</u>
Clinic Patient Services	\$ 6,312,495	\$ 2,392,597
Third-Party Contractual Adjustments	(494,724)	(413,431)
Provision for Bad Debts	<u>(1,754,415)</u>	<u>(1,228,006)</u>
Net Patient Service Revenue	<u>\$ 4,063,356</u>	<u>\$ 751,160</u>

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

The Organization may from time to time maintain cash balances at financial institutions in amounts that are greater than the amount insured by the Federal Deposit Insurance Corporation. The Organization utilizes a sweep account with its main depositor bank to reduce its risk of loss. At December 31, 2015 and 2014, the Organization did not have any deposits in excess of FDIC coverage.

NOTE 4 - INVESTMENTS

The Organization's investments are reported at fair value, and consist of certificates of deposit. The certificates of deposit mature within the next fiscal year.

NOTE 5 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014, consisted of contributions received from various community based and private funding sources which have stipulated these funds be used strictly for the nutrition centers, the medical clinics, client transportation and emergency funds, and for the client mental health program.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014 (CONTINUED)

NOTE 5 – RESTRICTIONS ON NET ASSETS (CONTINUED)

Temporarily restricted net asset balances at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Temporarily Restricted Net Assets		
Nutrition Centers	\$ -	\$ 10,059
Medical Clinics	-	12,062
Mental Health	-	33,166
Education and Other	-	27,364
Total Temporarily Restricted Net Assets	<u>\$ -</u>	<u>\$ 82,651</u>

At December 31, 2015 and 2014, there are no assets which are permanently restricted.

NOTE 6 – PATIENT ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Gross Accounts Receivable	\$ 272,989	\$ 816,364
Less: Allowance for Bad Debts and Contractuals	<u>(42,478)</u>	<u>(642,157)</u>
Accounts Receivable, Net of Allowance	<u>\$ 230,511</u>	<u>\$ 174,207</u>

NOTE 7 - 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	12%	3%
Medicaid	61%	91%
Commercial	6%	2%
Self Pay	<u>21%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014 (CONTINUED)

NOTE 8 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land and Land Improvements	\$ 257,000	\$ -
Buildings and Improvements	405,722	91,227
Furniture, Fixtures and Equipment	<u>1,144,618</u>	<u>488,068</u>
	1,807,340	579,295
Less Accumulated Depreciation	<u>(343,684)</u>	<u>(250,241)</u>
Property and Equipment, Net	<u>\$ 1,463,656</u>	<u>\$ 329,054</u>

Depreciation expense for the years ended December 31, 2015 and 2014 totaled \$93,188 and \$65,157.

NOTE 9 – NOTE PAYABLE

During 2015, the Foundation borrowed \$249,500 from a local bank to purchase land. This note is a 3.75% interest only loan, payable in monthly amounts, with a balloon payment due in July of 2016. The Foundation paid \$4,442 of interest associated with this loan as of December 31, 2015.

NOTE 10 – 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 2015 and 2014, the matching contributions expense recorded on the books was \$53,747 and \$28,219, respectively.

The Organization also has a deferred compensation plan for certain members of management as allowed in Internal Revenue Code 457(b). The plan allows for eligible employees to defer a portion of their salary into the plan and it allows for the Organization to make discretionary contributions. The deferred compensation and the discretionary contributions cannot exceed the applicable dollar limit set forth in the Internal Revenue Code. Each participant is fully vested in amounts credited to their account at all times. The assets of the plan are invested in a money market account invested in U.S. Treasury securities as directed by the plan participants. The assets of the plan are considered assets of the Organization and are thus available to general creditors of the Organization. As of December 31, 2015 and 2014 the assets of the plan total \$20,296 and \$77,646, and are included in cash and cash equivalents and accrued expenses. For 2015 and 2014, the Organization made no discretionary contributions.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014 (CONTINUED)

NOTE 11 - 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*, for the years ending 2013, 2014, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 12 – GRANT REVENUE

FQHC Grant - The Organization is the recipient of a Community Health Center (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, 2015 and 2014, the Organization received \$1,536,540 and \$887,192 in CHC grant funds. At December 31, 2015 and 2014, the Organization has set up a receivable of \$70,062 and \$102,385, for funds expended before year end. Funding for the year ending December 31, 2016, is expected to be approximately \$1,261,000. In addition, the Organization received a capital grant of \$1,000,000 and expects to expend \$650,000 in the next fiscal year.

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, 2015 and 2014, the Organization received \$1,839,177 and \$1,710,805 in Ryan White grant funds. At December 31, 2015 and 2014, the Organization has set up a receivable of \$311,423 and \$358,807, respectively, for funds expended before year end. Funding for the year ending December 31, 2016, is expected to be approximately \$1,500,000.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014 (CONTINUED)

NOTE 12 – GRANT REVENUE (CONTINUED)

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, 2015 and 2014, the Organization received \$528,523 and \$474,899 in HOPWA grant funds. At December 31, 2015 and 2014, the Organization has set up a receivable of \$107,218 and \$127,779, respectively, for funds expended before year end. Funding for the year ending December 31, 2016, is expected to be approximately \$473,500.

Housing and Urban Development Grants - The Organization is the recipient of a Supportive Housing Grant from 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. 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 year ended December 31, 2014, the Organization received \$193,351 in supportive housing grant funds. During 2014, the Organization has transferred this grant to a local housing non-profit organization. Accordingly, no expenditures or revenues were recorded in 2015.

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 2015 and 2014 the Organization has received \$910,408 and \$810,303 through these grants.

NOTE 13 – 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.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2015 (CONTINUED)

NOTE 13 – COMMITMENTS AND CONTINGENCIES(CONTINUED)

Operating Leases - The Organization leases various equipment and facilities under operating leases expiring at various dates through 2015. Total rental expense in 2015 and 2014 for all operating leases was \$252,985 and \$196,045, respectively.

The Organization is obligated under office lease agreements through 2022 in connection with its Denton and Plano office locations. The future minimum lease payments under these lease agreements at December 31, 2015 are as follows.

For the Year Ending		
December 31,		
2016	\$	237,815
2017		225,487
2018		198,348
2019		67,305
2020		69,549
2021-2022		<u>100,806</u>
Total	\$	<u>899,310</u>

NOTE 14 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2015, 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 11, 2016 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 AWARDS
YEAR ENDED DECEMBER 31, 2015**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<u>Direct Programs</u>		
Consolidated Health Centers	93.224	\$ 1,536,540
<u>Passed Through Dallas County Health and Human Services</u>		
HIV Emergency Care Relief Project Grant	93.914	1,380,425
HIV Care Formula Grant	93.917	458,752
<u>Passed Through the Womens Health and Planning Association of Texas Family Planning Services</u>		
Family Planning Services	93.217	359,595
Total U.S. Department of Health and Human Services		3,735,312
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
<u>Passed Through City of Dallas</u>		
Housing Opportunities for Persons with AIDS	14.241	528,523
<u>Passed Through City of Denton</u>		
Community Development Block Grant	14.218	41,001
<u>Passed Through City of Lewisville</u>		
Community Development Block Grant	14.218	4,367
<u>Passed Through City of McKinney</u>		
Community Development Block Grant	14.218	5,433
Total U.S. Department of Housing and Urban Development		579,324
U.S. DEPARTMENT OF HOMELAND SECURITY		
<u>Passed Through Community Council of Greater Dallas</u>		
Food and Shelter National Board Program	97.024	13,500
Total U.S. Department of Homeland Security		13,500
Total Expenditures of Federal Awards		\$ 4,328,136
NON-FEDERAL AWARDS		
State Services Grant		\$ 189,783

Health Services of North Texas, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Health Services of North Texas, Inc. under programs of the federal government for the year ended December 31, 2015. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Health Services of North Texas, Inc. has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

2950-50th Street

Lubbock, Texas 79413

(806) 791-1591

Fax (806) 791-3974

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, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 11, 2016.

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 Organization'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 11, 2016

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

2950-50th Street
Lubbock, Texas 79413
(806) 791-1591
Fax (806) 791-3974

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, 2015. 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, 2015.

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 11, 2016

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015**

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 or material weaknesses 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 or material weaknesses 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. Audit findings that are required to be reported in accordance with 2 CFR §200.516(a) are reported in this Schedule.
7. The program tested as a major program was:

Cluster/Program	CFDA Number
Housing Opportunitites for Persons with AIDS	14.241
HIV Emergency Relief Project Grants	93.914

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Health Services of North Texas, Inc. was not determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number	Finding
2014-01	<p>Criteria or Specific Requirement - Management is responsible for reconciling patient accounts receivable to aging reports and establishing a process to calculate the allowance for uncollectible patient accounts.</p> <p>Condition - The Organization reconciles patient accounts receivable on a monthly basis. However, due to the addition of the three new clinic sites, estimates were made to recognize the patient receivables and income at year end. During the audit, material entries were proposed to reconcile the accounts receivable to detail. The Organization recognizes allowances for uncollectible accounts receivable on a balance sheet approach that estimates net patient service revenue, based on historical collection rates. However, due to the entries needed to reconcile patient accounts receivable, the estimates for the uncollectible accounts needed to be adjusted to reflect the net realizable amount of the receivables.</p> <p>Context - Net patient accounts receivable and net patient service revenue are materially misstated.</p> <p>Cause - Management's estimates for the receivables of the three acquired clinics were overstated and the rates used in the allowance calculation were lower than the observed collection rates. Adjustment of these rates to reflect actual collections, resulted in material entries to allowances.</p> <p>Effect - A material weakness exists in the design and operation of providing a conservative estimate in this area.</p> <p>Recommendation - Management should reconcile the patient accounts receivable to the aging reports monthly. Also, the rates used in the allowance calculation need to be revised periodically throughout the year to ensure that they reflect the observed collection rates. This process should be monitored with a monthly review of the analytical ratios, accounts receivable, net patient service revenue, and actual cash collections on patient accounts.</p> <p>Views of Responsible Officials - HSNT is committed to addressing the reconciliation of patient accounts receivable to aging reports and establishing a process to calculate the allowance for uncollectible patient accounts through monitoring processes of applying the billing and collections policy and procedures.</p>

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015**

**Reference
Number**

Finding

2014-01
(Continued)

Plan of Corrective Action - HSNT will train staff performing Household Assessments on the Billing and Collections policy and procedure to include proper documentation of patient inability to pay in efforts to keep patients in medical care. The process will make certain to accurately document patient accounts to establish the organizations allowance for uncollectible patient accounts. The plan includes the following on-going activities:

- Train on HSNT Billing and Collections Policy and Procedure
- Detail procedure for staff to communicate to patients regarding accounts balances
- Provide guidelines for managers to oversee the patient account negotiation
- All patient account negotiations are forwarded to the CFO by the 3rd working day of the following month for the formal write off process
- Aging reports will be run from the practice management system and reconciled monthly to the general ledger

Current Year Status - The Clinic has corrected the finding during fiscal year 2015.

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015**

Reference Number	Finding	Questioned Costs
2014-02	CFDA No. 93.224, Consolidated Health Centers U.S. Department of Health and Human Services Program Year 2014	None

Criteria or Specific Requirement - Patient income verification should be obtained and calculation of annual wages should be made for all patients receiving sliding fee scale adjustments in accordance with the Clinic's policy.

Condition - Although management has written policies and procedures in place for personnel to follow when calculating patient income, including proper documentation and retention of patient files to support a patient's sliding-fee adjustment, certain patient files reviewed lacked adequate support for the sliding-fee adjustment. Also, patients were given improper health care benefits due to the inaccurate calculation of a patient's annual income.

Context - During the performance of audit procedures, it was noted that 1 out of 40 patient files reviewed received sliding-fee adjustments that were not supported by documentation in the patient's file. It was also noted that 6 out of the 40 patient files reviewed had proper wage documentation, but the wage was annualized incorrectly, causing the patient to receive a different sliding-fee discount than what they qualified for. The method used to annualize patient wages was inconsistent throughout the year.

Effect - Patients were improperly categorized on the Clinic's sliding fee scale and were given an improper sliding fee discount.

Cause - Certain staff made errors in the calculation of the patient's annual income, based on the wage verification documents received.

Recommendation - Management should strengthen the sliding fee scale policy and set forth guidelines on how to calculate a patient's annual income when certain wage verification documents are provided.

Views of Responsible Officials - HSNT is committed to addressing the patient income verification process to obtain and calculate annual wages for all patients' receiving the sliding fee scale adjustment through intensive monitoring for policy and procedure adherence.

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015**

Reference Number	Finding	Questioned Costs
2014-02 (Continued)	<p style="text-align: center;">CFDA No. 93.224, Consolidated Health Centers U.S. Department of Health and Human Services Program Year 2014</p> <p>Plan of Corrective Action - The Clinic Business Manager, Chief Operations Officer and Billing contractor set up electronic health record flagging system to prompt verification and require staff to review and update insurance and sliding fee information before continuing the check-in process. The system is currently working and staff have been trained on the policy and procedure for Household Assessment/Insurance documentation. The internal audit tool has been revised and will initially be used monthly to review charts for proper Household Assessment documentation and sliding fee assignment or accuracy of insurance data. Review will move to quarterly when accuracy level is met.</p> <ul style="list-style-type: none"> • Met with COO to review current protocol and monitoring tool • Reviewed the policy and procedure • Training conducted for staff to ensure understanding and competency • 5% of the records are reviewed as scheduled and data is analyzed and recommendations for further training is identified • Quality Improvement Committee will review data and recommend action steps for improvement and monitor progress 	None

Current Year Status - The Clinic has corrected the finding during fiscal year 2015.