

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

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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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, 2016 and 2015, 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, 2016 and 2015, 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 18, 2017, 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 18, 2017

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

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

HEALTH SERVICES OF NORTH TEXAS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS:	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,059,130	\$ 1,752,122
Short-Term Investments	549,228	546,651
Patient Accounts Receivable, Net of Allowance	224,250	230,511
Grant Receivables	885,777	587,389
Inventory of Supplies	<u>18,196</u>	<u>42,501</u>
Total Current Assets	2,736,581	3,159,174
PROPERTY AND EQUIPMENT, NET	<u>1,930,141</u>	<u>1,463,656</u>
OTHER ASSETS	<u>14,600</u>	<u>14,600</u>
Total Assets	<u><u>\$ 4,681,322</u></u>	<u><u>\$ 4,637,430</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, 2016 AND 2015

LIABILITIES AND NET ASSETS:	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Notes Payable	\$ 249,500	\$ 249,500
Accounts Payable	220,892	111,637
Accrued Payroll, Benefits, and Related Liabilities	<u>251,180</u>	<u>225,902</u>
Total Current Liabilities	721,572	587,039
NET ASSETS		
Unrestricted	<u>3,959,750</u>	<u>4,050,391</u>
Total Net Assets	<u>3,959,750</u>	<u>4,050,391</u>
Total Liabilities and Net Assets	<u><u>\$ 4,681,322</u></u>	<u><u>\$ 4,637,430</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, 2016 AND 2015

UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT	<u>2016</u>	<u>2015</u>
Patient Service Revenue (net of contractual allowances)	\$ 6,785,230	\$ 5,817,771
Provision for Uncollectible Accounts	<u>(1,873,892)</u>	<u>(1,754,415)</u>
Net Patient Service Revenue	4,911,338	4,063,356
Government Grants	3,949,516	4,809,162
Contributions	669,564	577,393
Net Assets Released From Restrictions	-	82,651
Investment Income	9,060	6,417
Other Revenue	<u>236,279</u>	<u>1,060,277</u>
Total Operating Revenues	<u>9,775,757</u>	<u>10,599,256</u>
 EXPENSES:		
Salaries	4,601,981	3,877,442
Employee Benefits and Payroll Taxes	902,932	835,718
Communication	106,396	109,208
Contract Labor	855,257	640,948
Equipment Rent and Maintenance	285,594	217,570
Occupancy	523,632	336,585
Assistance to Individuals	1,502,535	1,648,511
Supplies	552,015	350,371
Other Operating	393,317	362,501
Depreciation and Amortization	<u>83,458</u>	<u>93,188</u>
Total Operating Expenses	<u>9,807,117</u>	<u>8,472,042</u>
Operating Gain (Loss)	<u>(31,360)</u>	<u>2,127,214</u>
 NONOPERATING REVENUES (EXPENSES):		
Interest Expense	(10,888)	(4,442)
Gain (Loss) on Disposal of Assets	<u>(48,393)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(59,281)</u>	<u>(4,442)</u>
Increase in Unrestricted Net Assets	(90,641)	2,122,772
 TEMPORARILY RESTRICTED NET ASSETS		
Net Assets Released From Restrictions	<u>-</u>	<u>(82,651)</u>
Decrease in Temporarily Restricted Net Assets	<u>-</u>	<u>(82,651)</u>
Increase in Net Assets	(90,641)	2,040,121
Net Assets, Beginning of Year	<u>4,050,391</u>	<u>2,010,270</u>
Net Assets, End of Year	<u><u>\$ 3,959,750</u></u>	<u><u>\$ 4,050,391</u></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, 2016 AND 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2016</u>	<u>2015</u>
Change in Net Assets	\$ (90,641)	\$ 2,040,121
Adjustments to Reconcile Changes in Net Assets		
To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	83,458	93,188
Provision for Bad Debts	1,873,892	1,754,415
(Increase) Decrease in:		
Patient Accounts Receivable	(1,867,631)	(1,810,719)
Temporarily Restricted Net Assets	-	(82,651)
Inventory of Supplies	24,305	(30,194)
Prepaid and Other Current Assets	(298,388)	109,335
Increase (Decrease) in:		
Accounts Payable	109,255	(687)
Accrued Payroll, Benefits, and Related Liabilities	25,278	(1,687)
Net Cash Provided by Operating Activities	<u>(140,472)</u>	<u>2,071,121</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Property, Plant and Equipment	(549,943)	(1,227,790)
Change in Short-Term Investments	(2,577)	(2,236)
Cash Invested in Temporarily Restricted Assets	-	82,651
Net Cash Used by Investing Activities	<u>(552,520)</u>	<u>(1,147,375)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds From Issuance of Long-Term Debt	-	249,500
Net Increase in Cash and Cash Equivalents	(692,992)	1,173,246
Cash and Cash Equivalents at Beginning of Year	<u>1,752,122</u>	<u>578,876</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,059,130</u>	<u>\$ 1,752,122</u>
 RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF FINANCIAL POSITION:		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	<u>\$ 1,059,130</u>	<u>\$ 1,752,122</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, 2016

	Ryan							United Way Foundation			
	Ryan White	White Part			Denton	Medical Center	State	& Other	and	Management	
	Part A	B	FQHC	HOPWA	County	General Fund	Services	Programs	Fundraising	and General	Total
Salaries	\$ 296,814	\$ 164,768	\$ 690,768	\$ 94,667	\$ 24,473	\$ 2,560,967	\$ 71,456	\$ 241,281	\$ 164,752	\$ 292,035	\$4,601,981
Payroll Taxes	25,430	11,926	54,983	7,721	5,069	189,647	5,044	17,837	12,379	20,889	350,925
Fringe Benefits	59,005	36,074	49,248	13,457	4,407	294,202	12,901	18,231	24,958	39,524	552,007
Contract Labor	113,694	31,523	101,795	5,080	2,379	509,279	14,038	11,166	1,947	64,356	855,257
Communication	18,921	5,392	18,231	3,656	1,233	50,158	5,366	123	1,476	1,840	106,396
Conference Fees	530	-	7,334	20	-	3,891	-	-	350	5,468	17,593
Depreciation	-	-	-	-	405	46,830	-	-	7,467	28,756	83,458
Equipment	16,196	8,965	42,103	1,736	1,181	202,118	1,678	4,269	1,408	5,940	285,594
Insurance	18,116	4,530	10,305	1,401	696	22,359	9,699	1,358	40	218	68,722
Agency Travel	1,612	423	12,764	968	-	20,230	325	6,842	901	6,832	50,897
Misc. Expenses	-	-	-	-	-	193	-	-	-	22	215
Event Expenses	-	-	-	-	-	-	-	-	17,260	-	17,260
Occupancy	36,426	35,844	44,378	5,222	8,843	228,848	6,687	2,107	8,377	146,900	523,632
Postage	3,812	2,749	2,113	1,337	4	2,988	1,463	10	488	208	15,172
Printing	3,237	98	15,414	414	126	21,016	380	1,910	5,048	2,806	50,449
Professional Services	10,546	1,048	8,427	2,604	-	15,988	412	193	1,797	1,247	42,262
Staff Development	4,345	141	7,218	215	135	1,390	745	-	904	16,487	31,580
Assist to Clients	298,138	123,304	34,229	443,792	33	509,748	64,932	25,081	3,219	59	1,502,535
Dues and Other	4,503	112	14,099	627	-	58,013	68	3,816	7,155	10,774	99,167
Supplies	25,849	15,057	116,443	1,093	2,267	359,401	175	20,763	1,162	9,805	552,015
Total Expenses	\$ 937,174	\$ 441,954	\$1,229,852	\$584,010	\$ 51,251	\$ 5,097,266	\$195,369	\$ 354,987	\$ 261,088	\$ 654,166	\$9,807,117

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
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	-	-	79,870	525	651	5,662	1,924	105,351
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.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 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, 2016 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 2014, 2015, and 2016 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.

New Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with lease terms of more than 12 months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

In August 2016, the FASB issued a new accounting pronouncement regarding reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017, with early application permitted. 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, 2016 AND 2015 (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>2016</u>	<u>2015</u>
Clinic Patient Services	\$ 6,558,726	\$ 6,312,495
Third-Party Contractual Adjustments	226,504	(494,724)
Provision for Bad Debts	<u>(1,873,892)</u>	<u>(1,754,415)</u>
Net Patient Service Revenue	<u>\$ 4,911,338</u>	<u>\$ 4,063,356</u>

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015 (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, 2016 and 2015, the bank balance is categorized as follows:

	<u>2016</u>	<u>2015</u>
Amount insured by the FDIC	\$ 1,088,171	\$ 1,052,675
Uncollateralized	<u>681,350</u>	<u>1,397,905</u>
Total Bank Balance	<u>\$ 1,769,521</u>	<u>\$ 2,450,580</u>

NOTE 4 – SHORT TERM 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 – PATIENT ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Gross Accounts Receivable	\$ 242,078	\$ 272,989
Less: Allowance for Bad Debts and Contractuals	<u>(17,828)</u>	<u>(42,478)</u>
Accounts Receivable, Net of Allowance	<u>\$ 224,250</u>	<u>\$ 230,511</u>

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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	11%	12%
Medicaid	43%	61%
Commercial	10%	6%
Self Pay	<u>36%</u>	<u>21%</u>
Total	<u>100%</u>	<u>100%</u>

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015 (CONTINUED)

NOTE 7 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land and Land Improvements	\$ 257,000	\$ 257,000
Buildings and Improvements	420,690	405,722
Furniture, Fixtures and Equipment	1,201,083	1,144,618
Construction in Progress	411,770	-
	<u>2,290,543</u>	<u>1,807,340</u>
Less Accumulated Depreciation	(360,402)	(343,684)
Property and Equipment, Net	<u>\$ 1,930,141</u>	<u>\$ 1,463,656</u>

Depreciation expense for the years ended December 31, 2016 and 2015 totaled \$83,458 and \$93,188.

NOTE 8 – NOTE PAYABLE

During 2016, the Foundation renewed the \$249,500 loan. This note is a 4.00% interest only loan, payable in monthly amounts, with a balloon payment due in July of 2017. The Foundation paid \$10,888 of interest associated with this loan as of December 31, 2016.

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, 2016.

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 2016 and 2015, the matching contributions expense recorded on the books was \$59,492 and \$53,747, 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, 2016 and 2015 the assets of the plan total \$7,705 and \$20,296, and are included in cash and cash equivalents and accrued expenses. For 2016 and 2015, the Organization made no discretionary contributions.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015 (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*, for the years ending 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 11 – 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, 2016 and 2015, the Organization received \$1,229,853 and \$1,536,540 in CHC grant funds. At December 31, 2016 and 2015, the Organization has set up a receivable of \$70,062 and \$207,441 for funds expended before year end. Funding for the year ending December 31, 2017, is expected to be approximately \$1,396,000.

Health Infrastructure Investment Program - The Organization is the recipient of a Health Infrastructure Investment Program grant from the U.S. Department of Health and Human Services. These funds are being used in the construction of the new clinic. The Organization expended \$215,693 in 2016 and expects to expend the remaining \$777,450 in 2017.

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, 2016 and 2015, the Organization received \$1,379,127 and \$1,839,177 in Ryan White grant funds. At December 31, 2016 and 2015, the Organization has set up a receivable of \$338,640 and \$311,423, respectively, for funds expended before year end. Funding for the year ending December 31, 2017, is expected to be approximately \$1,500,000.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015 (CONTINUED)

NOTE 11 – 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, 2016 and 2015, the Organization received \$584,011 and \$528,523 in HOPWA grant funds. At December 31, 2016 and 2015, the Organization has set up a receivable of \$211,811 and \$107,218, respectively, for funds expended before year end. Funding for the year ending December 31, 2017, is expected to be approximately \$580,000.

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 2016 and 2015 the Organization has received \$541,003 and \$910,408 through these grants.

NOTE 12 – 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, 2016 AND 2015 (CONTINUED)

NOTE 12 – COMMITMENTS AND CONTINGENCIES(CONTINUED)

Operating Leases - The Organization leases various equipment and facilities under operating leases expiring at various dates through 2017. Total rental expense in 2016 and 2015 for all operating leases was \$401,503 and \$252,985, 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, 2016 are as follows.

For the Year Ending December 31,	
2017	225,487
2018	198,348
2019	67,305
2020	69,549
2021-2022	100,806
Total	<u>\$ 661,495</u>

NOTE 13 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2016, 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 18, 2017 which is the date on which the consolidated financial statements were available to be issued.

Subsequent to year end the Organization has secured a \$2.5 million line of credit, at 4.75% interest, that will be used to complete the construction of the new clinic.

Supplementary Information

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016**

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 Cluster	93.224	\$ 1,229,853
ACA Grants for Capital Development in Health Centers	93.526	215,693
<u>Passed Through Dallas County Health and Human Services</u>		
HIV Emergency Care Relief Project Grant	93.914	937,173
HIV Care Formula Grant	93.917	441,954
<u>Passed Through the Womens Health and Planning Association of Texas Family Planning Services</u>		
Family Planning Services	93.217	<u>245,328</u>
Total U.S. Department of Health and Human Services		<u>3,070,001</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
<u>Passed Through City of Dallas</u>		
Housing Opportunities for Persons with AIDS	14.241	584,011
<u>Passed Through City of Denton</u>		
Community Development Block Grant	14.218	5,906
<u>Passed Through City of Lewisville</u>		
Community Development Block Grant	14.218	<u>8,500</u>
Total U.S. Department of Housing and Urban Development		<u>598,417</u>
Total Expenditures of Federal Awards		<u><u>\$ 3,668,418</u></u>
NON-FEDERAL AWARDS		
State Services Grant		<u><u>\$ 195,368</u></u>

Health Services of North Texas, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

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, 2016. 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 to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 – SUBRECIPIENTS

There were no awards passed through to subrecipients.

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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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, 2016, 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 18, 2017.

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 18, 2017

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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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, 2016. 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, 2016.

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, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider to be a significant deficiency.

Health Services of North Texas, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Health Services of North Texas, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Health Services of North Texas, Inc.

July 18, 2017

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 18, 2017

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016**

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. One significant deficiency relating to the audit of the major federal award programs is 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. No 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.
6. 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.
7. Audit findings that are required to be reported in accordance with 2 CFR §200.516(a) are reported in this Schedule.
8. The programs tested as a major program were:

Cluster/Program	CFDA Number
Housing Opportunitites for Persons with AIDS	14.241
Consolidated Health Centers Cluster	93.224

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

FINDINGS – FINANCIAL STATEMENT AUDIT

None

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016**

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Reference Number	Finding	Questioned Costs
2016-001	<p style="text-align: center;">CFDA No. 93.224, Consolidated Health Centers U.S. Department of Health and Human Services Grant #H80CS24197 Program Year 2016</p>	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 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 properly supported by documentation in the patient's file. The patients income was calculated incorrectly causing a wrong sliding fee discount to be

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. Staff used net income to annualize the patient annual income instead of using gross income.

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, and set forth retention guidelines for storage of supporting documentation.

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016**

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

Reference Number	Finding	Questioned Costs
2016-001 (Continued)	CFDA No. 93.224, Consolidated Health Centers U.S. Department of Health and Human Services Grant #H80CS24197 Program Year 2016	None

Views of Responsible Officials and Plan of Corrective Action - A formal corrective action plan has been put in place, whereby HSNT will conduct ongoing training to address the methods used in calculating and annualizing patient wage information.

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None



CORRECTIVE ACTION PLAN

Audit Finding Reference Number: 2016-001

Contact Information:

Pamela Barnes
Chief Financial Officer
Health Services of North Texas, Inc.

Plan of Corrective Action:

Management will conduct ongoing training to address the understanding of Net Income versus Gross Income when calculating patient annual income. The following are the corrective action steps that will be part of the center's ongoing training program and performance evaluation.

- Reoccurring Quarterly Training for Front Desk Staff is scheduled for all site to ensure compliance and adherence to billing policies and procedures.
- Management Structural Changes have been implemented to now include Business Office Managers at each Medical Center.
- 5 Patient Charts spot audits is completed weekly per site by the Business Office Managers to ensure compliance, accuracy and quality.
- Weekly Front Desk Agenda Meetings are analyzed for trends to prevent potential errors with billing.

The Following Action Plan addresses the issues with Changes in the Electronic System Structured Tables:

- Efforts to maintain the integrity of the accuracy of the sliding fee schedules has been strengthened with the transition to a new electronic medical record (EMR) and its functionality of role based security controls.
- Implemented new EMR.
- Created Role Based Security and assigned Users to Roles
- The sliding fee schedules can only be adjusted on a written permission based allowance by the Chief Operating Officer. Any change and or modifications must be validated for accuracy by two separate authorized users, Senior Practice Administrator and CFO/COO. The activity is documented as accurate before changes can be permanently applied. This has been completed effective 7/3/2017.

Anticipated Completion Date:

All of the above corrective action measures and activities related to these items are currently in place effective 7/3/2017 and are ongoing.

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