

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

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements Health Services of North Texas, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of operations and changes in net assets, cash flow and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Health Services of North Texas, Inc.'s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Health Services of North Texas, Inc.'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Health Services of North Texas, Inc. as of December 31, 2020 and 2019, 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 and state awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2020, on our consideration of Health Services of North Texas, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Health Services of North Texas, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Health Services of North Texas, Inc.'s internal control over financial reporting and compliance.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, Texas
July 21, 2021

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

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

HEALTH SERVICES OF NORTH TEXAS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

ASSETS:	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,946,367	\$ 1,914,144
Short-Term Investments	564,649	560,458
Patient Accounts Receivable, Net of Allowance	379,022	346,165
Grant Receivables	816,078	556,155
Inventory of Supplies	-	9,186
Prepays and Other Current Assets	<u>490,675</u>	<u>97,149</u>
Total Current Assets	4,196,791	3,483,257
PROPERTY AND EQUIPMENT, NET	<u>2,854,867</u>	<u>3,019,585</u>
OTHER ASSETS	<u>11,429</u>	<u>11,429</u>
Total Assets	<u>\$ 7,063,087</u>	<u>\$ 6,514,271</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, 2020 AND 2019

LIABILITIES AND NET ASSETS:	2020	2019
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 46,558	\$ 44,402
Accounts Payable	436,752	152,431
Accrued Payroll, Benefits, and Related Liabilities	801,983	500,429
Other Accrued Liabilities	230,013	261,897
Total Current Liabilities	1,515,306	959,159
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	1,310,680	1,358,964
Total Liabilities	2,825,986	2,318,123
NET ASSETS		
Without Donor Restrictions	4,237,101	4,196,148
Total Net Assets	4,237,101	4,196,148
Total Liabilities and Net Assets	\$ 7,063,087	\$ 6,514,271

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

HEALTH SERVICES OF NORTH TEXAS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

REVENUES WITHOUT DONOR RESTRICTIONS, GAINS, AND OTHER SUPPORT:	2020	2019
Patient Service Revenue (net of contractual allowances)	\$ 17,027,377	\$ 13,932,999
Provision for Uncollectible Accounts	(9,646,426)	(7,207,560)
Net Patient Service Revenue	7,380,951	6,725,439
Government Grants	4,800,901	4,288,207
Contributions	1,346,030	666,683
Investment Income	4,934	5,223
Other Revenue	367,178	219,392
Total Revenues Without Donor Restrictions, Gains and Other Support	13,899,994	11,904,944
 EXPENSES:		
Salaries	6,964,764	5,528,290
Employee Benefits and Payroll Taxes	1,256,355	1,087,674
Communication	213,335	178,372
Contract Labor	1,311,575	1,263,872
Equipment Rent and Maintenance	494,183	302,171
Occupancy	512,479	471,006
Assistance to Individuals	2,760,152	2,032,929
Supplies	1,135,702	360,391
Other Operating	243,218	323,422
Interest Expense	66,760	68,743
Depreciation and Amortization	144,161	137,790
Total Expenses	15,102,684	11,754,660
Operating Income (Loss)	(1,202,690)	150,284
 OTHER INCOME (LOSS):		
Gain on Debt Extinguishment	1,264,200	-
Gain (Loss) on Disposal of Assets	(20,557)	(1,878)
Total Other Income (Loss)	1,243,643	(1,878)
 Excess of Revenues, Gains and Other Support Over Expenses	 \$ 40,953	 \$ 148,406
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 40,953	\$ 148,406
Net Assets, Beginning of Year	4,196,148	4,047,742
Net Assets, End of Year	\$ 4,237,101	\$ 4,196,148

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, 2020 AND 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2020</u>	<u>2019</u>
Change in Net Assets	\$ 40,953	\$ 148,406
Adjustments to Reconcile Changes in Net Assets		
To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	144,161	137,790
Loss on Disposal of Assets	20,557	1,878
Gain on Debt Extinguishment	(1,264,200)	-
Provision for Bad Debts	9,646,426	7,207,560
(Increase) Decrease in:		
Patient Accounts Receivable	(9,679,283)	(7,200,533)
Inventory of Supplies	9,186	8,360
Prepaid and Other Current Assets	(653,449)	349,252
Other Assets	-	8,171
Increase (Decrease) in:		
Accounts Payable	284,321	(190,538)
Accrued Payroll, Benefits, and Related Liabilities	301,554	230,791
Other Accrued Liabilities and Deferred Revenue	<u>(31,884)</u>	<u>(76,596)</u>
Net Cash Provided by Operating Activities	(1,181,658)	624,541
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Property, Plant and Equipment	-	(115,901)
Change in Short-Term Investments	<u>(4,191)</u>	<u>(4,861)</u>
Net Cash Used by Investing Activities	(4,191)	(120,762)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds From Issuance of Long-Term Debt	1,264,200	-
Payments on Long-Term Liabilities	<u>(46,128)</u>	<u>(44,146)</u>
Net Cash Provided by Financing Activities	<u>1,218,072</u>	<u>(44,146)</u>
Net Increase in Cash and Cash Equivalents	32,223	459,633
Cash and Cash Equivalents at Beginning of Year	<u>1,914,144</u>	<u>1,454,511</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,946,367</u>	<u>\$ 1,914,144</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for Interest	<u>\$ (66,760)</u>	<u>\$ (68,743)</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, 2020

	Ryan White	FQHC	HOPWA	Medical Center General Fund	United Way & Other Programs	Foundation and Fundraising	General and Administrative	Total
Salaries	\$ 686,152	\$ 1,120,907	\$ 88,557	\$ 2,609,405	\$ 1,795,219	\$ 64,686	\$ 599,838	\$ 6,964,764
Employee Benefits and Payroll Taxes	157,700	193,708	23,009	466,440	308,465	14,810	92,223	1,256,355
Communication	27,049	23,066	881	87,839	74,500	-	-	213,335
Contract Labor	260,222	397,565	342	324,219	158,026	-	-	1,140,374
Equipment Rent and Maintenance	85,458	143,143	629	111,434	149,456	-	4,063	494,183
Occupancy	98,306	47,815	3,199	267,789	86,076	123	9,171	512,479
Assistance to Individuals	364,913	1,820	376,111	2,173,909	14,600	-	-	2,931,353
Supplies	33,414	90,492	21,214	821,652	168,927	-	3	1,135,702
Other Operating	36,504	30,189	1,981	124,608	17,140	-	32,796	243,218
Interest Expense	-	-	-	-	33,288	-	33,472	66,760
Depreciation and Amortization	19,178	12,640	-	709	-	-	111,634	144,161
	<u>\$ 1,768,896</u>	<u>\$ 2,061,345</u>	<u>\$ 515,923</u>	<u>\$ 6,988,004</u>	<u>\$ 2,805,697</u>	<u>\$ 79,619</u>	<u>\$ 883,200</u>	<u>\$ 15,102,684</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, 2019

	United Way &							
				Medical Center	Other	Foundation and	General and	
	Ryan White	FQHC	HOPWA	General Fund	Programs	Fundraising	Administrative	Total
Salaries	\$ 923,666	\$ 927,792	\$ 106,898	\$ 2,712,640	\$ 442,665	\$ 96,883	\$ 317,746	\$ 5,528,290
Employee Benefits and Payroll Taxes	224,440	181,310	33,588	493,800	78,286	17,756	58,494	1,087,674
Communication	31,661	61,817	2,604	33,559	6,384	79	42,268	178,372
Contract Labor	251,529	493,986	8,565	419,762	90,029	-	1	1,263,872
Equipment Rent and Maintenance	73,263	128,066	5,006	84,144	6,888	393	4,411	302,171
Occupancy	116,126	74,840	12,718	246,388	4,174	1,955	14,805	471,006
Assistance to Individuals	390,202	39,557	388,195	1,208,234	6,541	200	-	2,032,929
Supplies	14,588	151,901	685	158,797	28,228	4,941	1,251	360,391
Other Operating	57,131	67,472	7,145	116,981	2,468	12,420	59,805	323,422
Interest Expense	-	-	-	-	-	-	68,743	68,743
Depreciation and Amortization	21,063	12,803	149	737	-	-	103,038	137,790
	<u>\$ 2,103,669</u>	<u>\$ 2,139,544</u>	<u>\$ 565,553</u>	<u>\$ 5,475,042</u>	<u>\$ 665,663</u>	<u>\$ 134,627</u>	<u>\$ 670,562</u>	<u>\$ 11,754,660</u>

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

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A separate nonprofit corporation, Health Services of North Texas Foundation (the “Foundation”), exists as a support organization under the provisions of Section 509(a)(3) of the Internal Revenue Code. All significant intercompany transactions have been eliminated in the consolidated financial statements. No significant Foundation activity occurred during the year ending December 31, 2020.

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

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

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

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

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements:

Accounting Standards Update (ASU) No. 2014-09 – In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The FASB and the International Accounting Standards Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for the U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) that would: 1) Remove inconsistencies and weaknesses in revenue requirements; 2) Provide a more robust framework for addressing revenue issues; 3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; 4) Provide more useful information to users of financial statements through improved disclosure statements; 5) Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, with early implementation permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Accounting Standards Update (ASU) No. 2016-02 – In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, *Leases* (Topic 842). ASU 2016-02 was implemented by FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing the key information about leasing transactions. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, with early implementation permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Accounting Standards Update (ASU) No. 2020-05 – In June 2020, the Financial Accounting Standards Board (“FASB”) issued ASU 2020-05 – Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842). The FASB issued this Update as a limited deferral of the effective date (including amendments issued after the issuance of the original Update) to provide immediate, near-term relief for certain entities for whom ASU 2014-09 and ASU 2016-02 are either currently effective or imminently effective. The effective date for ASU 2014-09 and ASU 2016-02 has been postponed from reporting periods beginning after December 15, 2018 to reporting periods beginning after December 15, 2021. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Accounting Standards Update (ASU) No. 2019-12 – In December 2019, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2019-12, *Income Taxes* (Topic 740) – *Simplifying the Accounting for Income Taxes*. ASU 2019-12 was implemented by FASB to reduce complexity in accounting standards. The objective of the Simplification initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, with early implementation permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

**HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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>2020</u>	<u>2019</u>
Clinic Patient Services	\$19,597,352	\$15,981,048
Third-Party Contractual Adjustments	(2,569,975)	(2,048,049)
Provision for Bad Debts	<u>(9,646,426)</u>	<u>(7,207,560)</u>
Net Patient Service Revenue	<u>\$ 7,380,951</u>	<u>\$ 6,725,439</u>

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (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, 2020 and 2019, the bank balance and carrying value is categorized as follows:

	<u>2020</u>	<u>2019</u>
Amount insured by the FDIC	\$ 942,998	\$ 939,769
Uncollateralized	<u>1,870,872</u>	<u>1,684,124</u>
Total Bank Balance	<u>\$ 2,813,870</u>	<u>\$ 2,623,893</u>
Toal Carrying Value	<u>\$ 2,511,016</u>	<u>\$ 2,474,602</u>

NOTE 4 – SHORT TERM INVESTMENTS

The Organization’s short term investments are reported at fair value, and consist of certificates of deposit with balances of \$564,649 and \$560,458 at December 31, 2020 and 2019, respectively. The certificates of deposit mature within the next fiscal year.

NOTE 5 – PATIENT ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross Accounts Receivable	\$ 632,092	\$ 541,483
Less: Allowance for Bad Debts and Contractuals	<u>(253,070)</u>	<u>(195,318)</u>
Accounts Receivable, Net of Allowance	<u>\$ 379,022</u>	<u>\$ 346,165</u>

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 6 - CONCENTRATION OF CREDIT RISK

Patient Accounts Receivable - The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payers at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Medicare	12%	12%
Medicaid	34%	40%
Commercial	12%	9%
Self Pay	<u>42%</u>	<u>39%</u>
Total	<u>100%</u>	<u>100%</u>

NOTE 7 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land and Land Improvements	\$ 257,000	\$ 257,000
Buildings and Improvements	2,417,426	2,417,426
Furniture, Fixtures and Equipment	<u>681,180</u>	<u>850,027</u>
	3,355,606	3,524,453
Less Accumulated Depreciation	<u>(500,739)</u>	<u>(504,868)</u>
Property and Equipment, Net	<u>\$ 2,854,867</u>	<u>\$ 3,019,585</u>

Depreciation expense for the years ended December 31, 2020 and 2019 totaled \$144,161 and \$137,790.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 8 – LONG-TERM DEBT

A summary of long-term debt at December 31, 2020 and 2019, follows:

	<u>2020</u>	<u>2019</u>
4.75% Note Payable, with monthly principal and interest payments of \$9,185, and a balloon payment due July 1, 2024. Secured by deed of trust.	<u>\$ 1,357,238</u>	<u>\$ 1,403,366</u>
Total Long-Term Debt	1,357,238	1,403,366
Less: Current Portion	<u>(46,558)</u>	<u>(44,402)</u>
Non-Current Portion	<u>\$ 1,310,680</u>	<u>\$ 1,358,964</u>

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

For the Year Ending December 31,	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 46,558	63,657
2022	48,818	61,397
2023	51,188	59,027
2024	<u>1,210,674</u>	<u>33,292</u>
Total	<u>\$1,357,238</u>	<u>\$217,373</u>

NOTE 9 – PENSION PLAN

Retirement Plan – The Organization has a retirement plan, under Section 403(b) of the Internal Revenue Code, which covers all eligible employees. Under this plan, employees may defer up to 25% of their base salary on a pre-tax basis through contributions to the Plan, subject to annual maximum dollar limits. The Board of Directors elected to have the Organization match 100% of each employee’s elective contributions up to 5% of the employee’s base salary. For 2020 and 2019, the employee contributions to the plan were \$228,070 and \$190,794, respectively. For 2020 and 2019, the matching contributions expense recorded on the books was \$137,454 and \$94,527, respectively.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 10 - INCOME TAXES

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

NOTE 11 – 340B DRUG PROGRAM

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

Reported 340B revenue for the year ended December 31, 2020 and 2019 of \$1,805,190 and \$1,121,800, respectively, consists of reimbursements from the network of participating pharmacies, net of the initial purchase price of the drugs and is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position. At December 31, 2020 and 2019, the Organization recorded a 340B drug program receivable of \$439,229 and \$76,578, respectively. The receivable is included in prepaid expenses and other current assets in the accompanying statements of net position.

NOTE 12 – GRANT REVENUE

FQHC Grant - The Organization is the recipient of a Consolidated Health Centers Cluster (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care services delivery for residents in Denton, Collin, Hunt, Rockwall, and Kaufman Counties. Terms of the grant generally provide for funding of the Organization’s operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended December 31, 2020 and 2019, the Organization received \$2,228,345, and \$1,671,513 in CHC grant funds. At December 31, 2020 and 2019, the Organization has set up a receivable of \$227,796 and \$120,766 for funds expended before year end. Funding for the year ending December 31, 2021, is expected to be approximately \$1,500,000.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 12 – GRANT REVENUE (CONTINUED)

Provider Relief Grant - The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), the Paycheck Protection Program (PPP) and Health Care Enhancement Act (P.L. 116-139), and the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act (P.L. 116-123) appropriated funds to reimburse eligible healthcare providers for healthcare related expenses or lost revenues attributable to coronavirus. These funds were distributed by the Health Resources and Services Administration (HRSA) through the Provider Relief Fund (PRF) program. The Clinic received provider relief funds through Phase 1-3 Stimulus payments and targeted distributions of \$186,310. Recipients of these funds agreed to Terms and Conditions, which require compliance with reporting requirements as specified by the Secretary of Health and Human Services in program instructions. The Clinic met these requirements and recognized these expenditures in 2020.

The Clinic also received Paycheck Protection Payments in the amount of \$1,264,200 in conjunction with the CARES act. All terms were met and the Clinic received notification of forgiveness for the payroll amounts received during 2020. As a result, the Clinic has recognized \$1,264,000 as a Gain on Debt Extinguishment.

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, 2020 and 2019, the Organization received \$1,168,655 and \$1,492,457 in Ryan White grant funds. At December 31, 2020 and 2019, the Organization has set up a receivable of \$368,216 and \$264,631 respectively, for funds expended before year end. Funding for the year ending December 31, 2021, is expected to be approximately \$1,050,000.

Ryan Whites State Services Grant – The Organization is the recipient of funds from Dallas County Health & Human Services, which is funded under the Title XXVI of the PHS Act, as amended by the Ryan White HIV/AIDS Treatment Extension Act of 2009: State of Texas HIV Health and Social Services Grant (State Services Grant). The general purpose of this contract is to provide delivery of services to persons with HIV/AIDS and their family members or caregivers who reside within the Dallas and/or Sherman-Denison HIV Services Delivery Area. During the years ended December 31, 2020 and 2019, the Organization received \$338,910 and \$178,292 respectively. Funding for the year ending December 31, 2021 is expected to be \$200,000.

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (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, 2020 and 2019, the Organization received \$515,394 and \$546,281 in HOPWA grant funds. At December 31, 2020 and 2019, the Organization has set up a receivable of \$165,087 and \$86,154, respectively, for funds expended before year end. Funding for the year ending December 31, 2020, is expected to be approximately \$600,000.

Women’s Health and Family Planning Grant – The Organization is the recipient of a grant from the Women’s Health and Family Planning Association of Texas (WHFPT) which is funded by the U.S. Department of Health and Human Services. The general purpose of this grant is to provide medical counseling, educational and outreach activities in the area of family planning. During the years ended December 31, 2020 and 2019, the Organization received \$246,924 and \$272,236 in WHFPT grant funds. Funding for the year ending December 31, 2020, is expected to be approximately \$236,000.

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 2020 and 2019 the Organization has received \$302,674 and \$127,428 through these grants.

NOTE 13 – IN-KIND CONTRIBUTIONS

In-Kind Rent – The Organization is the recipient of in-kind rent from two tenants. In-kind rent revenue is recognized as qualifying expenditures and is incurred over the contribution period. During the years ended December 31, 2020 and 2019, the Organization received approximately \$125,000 and \$125,000, respectively, from Epic Development, aka Lincoln Harris Inc. The Organization received \$12,000 in 2020 and \$12,000 in 2019 from the Kong Family.

In-Kind Medical Goods – The Organization is the recipient of in-kind medical relief goods from Direct Relief. Direct Relief is a public benefit, non-denominational and non-political organization emphasizing self-help through medical supplies and services for better health care. During 2020 and 2019, Direct Relief donated medical supplies valued approximately \$741,000 and \$67,000, respectively. In-kind revenue is recognized as qualifying expenditures as the Organization utilizes the medical goods.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

Operating Leases - The Organization leases various equipment and facilities under operating leases expiring at various dates through 2029. Total rental expense in 2020 and 2019 for all operating leases was \$320,747 and \$294,418, respectively.

The Organization is obligated under office lease agreements through 2029 in connection with its Denton, Wylie and Plano office locations. The future minimum lease payments under these lease agreements at December 31, 2020 are as follows.

For the Year Ending December 31,	
2021	278,526
2022	151,926
2023	80,775
2024	80,775
2025	80,775
2026 - 2029	323,100
Total	<u>\$ 995,877</u>

HEALTH SERVICES OF NORTH TEXAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019 (CONTINUED)

NOTE 15 – LIQUIDITY AND AVAILABILITY

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

	<u>2020</u>	<u>2019</u>
Financial Assets at Year-End		
Cash and Cash Equivalents	\$1,946,367	\$1,914,144
Short-Term Investments	564,649	560,458
Patient Accounts Receivable, Net of Allowance	379,022	346,165
Other Receivables	1,306,753	653,304
Total Financial Assets	<u>4,196,791</u>	<u>3,474,071</u>
Financial Assets Available to Meet General Expenditures		
Within One Year	<u>\$4,196,791</u>	<u>\$3,474,071</u>

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

NOTE 16 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2020, 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 21, 2021 which is the date on which the consolidated financial statements were available to be issued.

Supplementary Information

HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2020

Federal Grantor/Pass-Through Grantor/ State Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Identifying Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Direct Programs</u>			
Consolidated Health Centers Cluster	93.224	H80CS24197	\$ 1,439,709
COVID-19 FY 2020 Expanding Capacity for Coronavirus Testing (ECT)	93.224	H8ECS38810	142,115
COVID-19 FY 2020 Coronavirus Supplemental Funding for Health Centers	93.224	H8CCS35342	69,029
COVID-19 Health Center Coronavirus Aid, Relief, and Economic Security	93.224	H8DCS36492	577,492
<u>Total Health Centers Cluster</u>			<u>2,228,345</u>
COVID-19 Provider Relief Funds	93.498	2020 Provider Relief	186,310
<u>Passed Through Dallas County Health and Human Services</u>			
HIV Emergency Relief Project Grant	93.914	H89HA00014	932,863
HIV Care Formula Grant	93.917	X07HA00054-29-00	235,792
<u>Passed Through the Womens Health and Planning Association of Texas Family Planning Services</u>			
Family Planning Services	93.217	2019-2020	42,664
COVID-19 Family Planning Services	93.217	2020-2021	12,000
Family Planning Services	93.217	2020-2021	192,260
<u>Total Family Planning Services</u>			<u>246,924</u>
Total U.S. Department of Health and Human Services			<u>3,830,234</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<u>Passed Through City of Dallas</u>			
Housing Opportunities for Persons with AIDS	14.241	OHS-2019-0001140	350,310
Housing Opportunities for Persons with AIDS	14.241	OHS-2019-0001140-02	165,084
<u>Total Housing Opportunites for Persons with AIDS</u>			<u>515,394</u>
<u>Passed Through City of Denton</u>			
Community Development Block Grant	14.218		56,811
<u>Passed Through City of Lewisville</u>			
Community Development Block Grant	14.218	0179-19-RES	15,780
Total U.S. Department of Housing and Urban Development			<u>587,985</u>
Total Expenditures of Federal Awards			<u>\$ 4,418,219</u>
STATE AWARDS			
<u>Passed Through Dallas County Health & Human Services</u>			
Ryan White State Services Grant		2019-004-6844	<u>\$ 338,910</u>

The accompanying notes are an integral part of this schedule

Health Services of North Texas, Inc.
Notes to Schedule of Expenditures of Federal and State Awards
For the Year Ended December 31, 2020

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the “Schedule”) includes the federal and state award activity of Health Services of North Texas, Inc. under programs of the federal and state of Texas governments for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Health Services of North Texas, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Health Services of North Texas, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

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

NOTE 4 – SUBRECIPIENTS

Pass-through entity identifying numbers are presented where available.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Health Services of North Texas, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of operations and changes in net assets, cash flow and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 21, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Health Services of North Texas, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Health Services of North Texas, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Services of North Texas, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Health Services of North Texas, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Health Services of North Texas, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, Texas
July 21, 2021

**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, 2020. 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, 2020.

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 21, 2021

**HEALTH SERVICES OF NORTH TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2020**

SUMMARY OF AUDITOR’S RESULTS

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

Cluster/Program	CFDA Number
HIV Emergency Relief Project Grant	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 determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters reportable

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

No matters reportable

