

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors
Special Health Resources for Texas, Inc.
Longview, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Special Health Resources for Texas, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Health Resources for Texas, Inc., as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters*Other Information*

Our audit was conducted for the purpose of forming an opinion on the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 June 16, 2020, on our consideration of Special Health Resources for 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 the 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 Special Health Resources for Texas, Inc.'s internal control over financial reporting and compliance.

Henry E. Peters, PC

Longview, Texas
June 16, 2020

FINANCIAL STATEMENTS

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

CURRENT ASSETS	2019	2018
Cash	\$ 1,140,379	\$ 204,582
Patient accounts receivable, net of allowance	2,961,984	1,899,157
Grant receivable, net of allowance	884,609	769,038
Inventory	184,275	122,831
Prepaid expenses and other current assets	147,959	24,434
Total current assets	<u>5,319,206</u>	<u>3,020,042</u>
PROPERTY AND EQUIPMENT		
Land	69,300	69,300
Buildings	180,158	175,300
Furniture and equipment	560,077	508,568
Leasehold improvements	316,750	296,072
Vehicles	430,796	430,796
Less: accumulated depreciation	(1,077,488)	(966,701)
Net property and equipment	<u>479,593</u>	<u>513,335</u>
Total assets	<u>\$ 5,798,799</u>	<u>\$ 3,533,377</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 3,584,745	\$ 1,677,001
Accrued expenses and other liabilities	1,136,834	680,886
Deferred revenue	14,000	-
Line of credit	-	109,046
Tenant improvement allowance	4,515	-
Total current liabilities	<u>4,740,094</u>	<u>2,466,933</u>
Tenant improvement allowance	-	15,348
Total liabilities	<u>4,740,094</u>	<u>2,482,281</u>
NET ASSETS		
Without donor restrictions	<u>1,058,705</u>	<u>1,051,096</u>
Total liabilities and net assets	<u>\$ 5,798,799</u>	<u>\$ 3,533,377</u>

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

REVENUES	2019	2018
Patient service revenue, net of contractual adjustments and discounts	\$ 16,137,541	\$ 12,826,931
Provision for uncollectible accounts	(636,341)	(119,680)
Net patient service revenue less provision for uncollectible accounts	15,501,200	12,707,251
340B pharmacy revenue	8,115,136	4,095,769
Grant revenue, net of allowance	7,230,149	5,923,334
Contribution revenue	16,367	5,311
Other revenue	21,213	77,367
Total revenues	<u>30,884,065</u>	<u>22,809,032</u>
 EXPENSES		
Salaries and wages	11,511,075	7,850,296
Employee benefits	2,089,426	1,397,316
Contracted services	4,902,998	5,901,591
340B pharmacy expenses	5,408,954	2,379,695
Legal and professional fees	836,881	214,021
Supplies and other	4,694,221	3,813,523
Rent	1,272,972	1,042,465
Depreciation	118,078	112,892
In-kind expense	15,290	-
Total expenses	<u>30,849,895</u>	<u>22,711,799</u>
 OPERATING INCOME	<u>34,170</u>	<u>97,233</u>
 OTHER INCOME AND EXPENSE		
Interest income	34	2,835
Interest expense	(26,391)	(11,699)
Loss on disposal of property and equipment	(204)	-
Total other income and expense	<u>(26,561)</u>	<u>(8,864)</u>
 CHANGE IN NET ASSETS	7,609	88,369
 NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	<u>1,051,096</u>	<u>962,727</u>
 NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	<u>\$ 1,058,705</u>	<u>\$ 1,051,096</u>

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2019

	Outreach and intervention	HIV services	Substance abuse intervention and treatment	General health	General and administrative	Total
Salaries and wages	\$ 245,138	\$ 1,000,813	\$ 1,537,519	\$ 7,446,548	\$ 1,281,057	\$ 11,511,075
Employee benefits	60,180	222,858	314,803	1,242,936	248,649	2,089,426
Contracted services	1,225	720,940	537,696	3,606,318	36,819	4,902,998
340B pharmacy expenses	-	8	-	5,408,946	-	5,408,954
Legal and professional fees	152	19,446	50	575,075	242,158	836,881
Supplies and other	49,463	810,287	202,758	3,357,074	274,639	4,694,221
Rent	16,566	128,106	65,694	1,005,387	57,219	1,272,972
Depreciation	-	-	-	-	118,078	118,078
In-kind expense	-	-	-	-	15,290	15,290
	<u>\$ 372,724</u>	<u>\$ 2,902,458</u>	<u>\$ 2,658,520</u>	<u>\$ 22,642,284</u>	<u>\$ 2,273,909</u>	<u>\$ 30,849,895</u>

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2018

	Outreach and intervention	HIV services	Substance abuse intervention and treatment	General health	General and administrative	Total
Salaries and wages	\$ 219,848	\$ 1,042,994	\$ 810,030	\$ 4,708,959	\$ 1,068,465	\$ 7,850,296
Employee benefits	51,147	230,081	161,232	773,826	181,030	1,397,316
Contracted services	-	692,939	228,812	4,950,115	29,725	5,901,591
340B pharmacy expenses	-	7,659	-	2,372,036	-	2,379,695
Legal and professional fees	911	15,459	3,932	171,488	22,231	214,021
Supplies and other	77,661	673,133	212,324	2,684,081	166,324	3,813,523
Rent	14,080	118,527	97,839	791,553	20,466	1,042,465
Depreciation	-	-	-	11,793	101,099	112,892
	<u>\$ 363,647</u>	<u>\$ 2,780,792</u>	<u>\$ 1,514,169</u>	<u>\$ 16,463,851</u>	<u>\$ 1,589,340</u>	<u>\$ 22,711,799</u>

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2019</u>	<u>2018</u>
Change in net assets	\$ 7,609	\$ 88,369
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	118,078	112,892
Provision for bad debt	636,341	119,680
Loss on disposal of fixed assets	204	
Changes in assets and liabilities:		
Increase in patient accounts receivable	(1,699,168)	(401,555)
(Increase) decrease in grant accounts receivable	(115,571)	941,739
(Increase) decrease in inventory	(61,444)	3,870
(Increase) decrease in other current assets	(123,525)	9,125
Increase (decrease) in accounts payable	1,907,744	(45,682)
Increase in accrued expenses	455,948	206,671
Increase (decrease) in deferred revenue	14,000	(65,382)
Total adjustments	<u>1,132,607</u>	<u>881,358</u>
Net cash provided by operating activities	<u>1,140,216</u>	<u>969,727</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment purchases	(84,540)	(171,376)
Net cash used in investing activities	<u>(84,540)</u>	<u>(171,376)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	8,734,652	4,082,487
Principle payments on line of credit	(8,843,698)	(4,722,932)
Principal payments on capital lease obligations	-	(23,708)
Principal payments on tenant improvement allowance	(10,833)	(10,833)
Net cash used by financing activities	<u>(119,879)</u>	<u>(674,986)</u>
 Net increase in cash	935,797	123,365
 CASH, BEGINNING OF YEAR	204,582	81,217
 CASH, END OF YEAR	<u>\$ 1,140,379</u>	<u>\$ 204,582</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
 Cash paid during the year for interest	<u>\$ 26,391</u>	<u>\$ 11,699</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Special Health Resources for Texas, Inc. (Organization) began as the community response to the AIDS epidemic. Initially, the Organization provided social support to HIV positive individuals and their families, but soon, the Organization assumed a leading role in providing medical care, emergency assistance and case management and other supportive services to HIV positive individuals across 23 counties of northeast Texas.

Over the past two decades, the Organization has grown into a comprehensive health care system in East Texas, providing affordable care for the whole family. With clinics in Longview, Tyler, Paris, Jacksonville, and Texarkana, as well as a mobile unit to serve more rural areas, the Organization now provides health care to families in all 23 East Texas counties. The Organization is a Federally Qualified Health Clinic (FQHC), offering patients a full-range of services, including both adult and pediatric primary care, adult and pediatric dental care, women's health services, immunizations and vaccinations, HIV/AIDS screening and treatment, mental health care and substance abuse services.

BASIS OF PRESENTATION

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP) for not-for-profit and health care organizations.

US GAAP requires not-for-profit organizations to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

At December 31, 2019 and 2018 there are no donor-imposed restrictions on net assets.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of all liquid investments with original maturities of three months or less. The Organization maintains cash accounts with commercial banks, the balances of which periodically may exceed federally insured limits. Management believes it effectively safeguards cash assets.

PATIENT ACCOUNTS RECEIVABLE

The Organization reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The net realizable amount includes an adjustment for estimated contractual allowances based on negotiated rates with third-party payers. In addition, the net realizable amount includes an allowance for doubtful collection of patient balances based upon a review of outstanding receivables, historical collection information and existing economic conditions.

As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

INVENTORY

Inventory consists of pharmaceuticals and medical/dental supplies and is recorded at net realizable value on a first-in, first-out basis.

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
CONTINUED

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

PROPERTY AND EQUIPMENT

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. It is the policy of the Organization to capitalize all computers, copiers, and electronic equipment, and all other tangible personal property costing more than \$5,000.

Certain property and equipment has been purchased with grant funds from the U.S. Department of Health and Human Services. Such items may be reclaimed by the federal government if not used to further the grant’s objectives.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

	Depreciable Life
Buildings	39 years
Furniture and fixtures	5 - 10 years
Leasehold improvements	5 years
Vehicles	5 years

LONG-LIVED ASSET IMPAIRMENT

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate of future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

NET PATIENT SERVICE REVENUE

The Organization has agreements with third-party payers 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 payers and others for services rendered and includes estimated retroactive revenue adjustments. Cost-settled adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

340B PHARMACY REVENUE

The Organization participates in the 340B “Drug Discount Pricing Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. 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 contract arrangement with the Organization.

GRANT REVENUE

Support funded by grants from federal, state and private sources is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
CONTINUED

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

CONTRIBUTIONS

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

PROFESSIONAL LIABILITY CLAIMS

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Note 4.

CONTRACTED SERVICES

The Organization has contractual agreements with third-parties to provide a full-range of services to patients including medical, mental health, and substance abuse services. In addition, contracted services also include third party medical billing and other subscription services necessary to provide patient services.

INCOME TAXES

The Organization has been recognized as exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns, and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require disclosure in the accompanying financial statements. The Organization's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

ESTIMATES

The preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The primary areas requiring significant estimates by management are the allowance for doubtful accounts and the provision for uncollectible accounts related to net patient service revenue.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which creates ASC 606 "Revenue from Contracts with Customers" and supersedes the revenue recognition requirements in ASC 605 "Revenue Recognition." The guidance in ASU 2014-09 and subsequently issued amendments ASU 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients* outlines a comprehensive model for all entities to use in accounting for revenue arising from contracts with customers as well as required disclosures. Entities have the option of using either a full retrospective or modified approach to adopt the new guidance. The update is effective for annual periods beginning after December 15, 2019. The Organization adopted this standard beginning on January 1, 2020.

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
CONTINUED

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

RECENT ACCOUNTING PRONOUNCEMENTS - CONTINUED

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842)*”. This update requires lessees to recognize assets and liabilities for leases with lease terms of more than 12 months and disclose key information about leasing arrangements. Consistent with current US GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The update is effective for reporting periods beginning after December 15, 2021 for non-public entities with early adoption permitted.

Management is in the process of evaluating the impact of this accounting guidance and currently plans to implement this standard beginning on January 1, 2022, the first day of the 2022 fiscal year.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958)*: “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”. The amendments in this update clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The update is effective for annual periods beginning after December 15, 2019. The Organization adopted this standard beginning on January 1, 2020.

RECLASSIFICATIONS

Certain prior year amounts in the statements of operations and changes in net assets have been reclassified to conform to the current year’s presentation. These changes had no impact on net assets.

NOTE 2 - NET PATIENT SERVICE REVENUE AND RECEIVABLE

The Organization is approved as a FQHC for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid under a prospective payment system (PPS). Medicare payment, including patient coinsurance, is paid based on the lesser of the Organization’s actual charge or the applicable PPS rate. 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 provided under the plan.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Organization under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

Patient service revenue and related expenses increased significantly for the Organization from 2018 to 2019 as the result of strategic growth initiatives to add locations and providers.

At December 31, 2019 patient accounts receivable amounted to \$3,158,601 with an allowance for doubtful accounts of \$196,617. At December 31, 2018, patient accounts receivable amounted to \$2,007,807 with an allowance for doubtful accounts of \$108,650.

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
CONTINUED

NOTE 3 - GRANT RECEIVABLE, ALLOWANCE FOR DOUBTFUL COLLECTIONS, AND DEFERRED REVENUE

The grant receivable is related to reimbursement based grants. Due to the nature of these receivables, management has determined no allowance for doubtful accounts is necessary because the receivables are expected to be collected in their entirety.

Deferred revenue recorded in 2019 consisted of grant funds received for which eligibility requirements have not yet been met.

NOTE 4 - PROFESSIONAL LIABILITY CLAIMS

The Organization purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Organization also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no accrual has been made for medical malpractice costs for the years ended December 31, 2019 and 2018. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

NOTE 5 - LINE OF CREDIT

The Organization had a \$500,000 line of credit that was renewed in December of 2018. The line expires on September 30, 2020, and is secured by patient accounts receivable, a deed of trust and liens on specific vehicles. Interest on the line is at 6.5%. At December 31, 2019, funds borrowed during the year were repaid in full. At December 31, 2018, there was \$109,046 borrowed on the line of credit.

NOTE 6 - LEASE COMMITMENTS

The Organization leases various types of office equipment, office space and clinic space. Terms range from 12 to 72 months with monthly payments ranging from \$100 to \$20,000.

Certain leases essentially transfer the risks of ownership and are accounted for as capital leases. Leased property under capital leases at December 31, 2018 included:

	2018
Equipment	\$ 30,244
Mobile unit	139,000
Purchase contract obligation	63,593
Less: accumulated depreciation	(178,789)
	\$ 54,048

All of the Organization's capital leases expired during the year ended December 31, 2018 and the Organization purchased the equipment at its residual value.

The Organization has noncancellable operating leases for primary care outpatient offices expiring in various years through 2022. The leases require the Organization to pay all executory costs (property taxes, maintenance and insurance). The leases are generally for a one to six-year period with renewal options. The Organization entered into an office lease on May 28, 2014, that includes tenant improvement allowances of \$65,000, which have been recorded in property and equipment and tenant improvement allowance liability on the accompanying statements of financial position at December 31, 2019 and 2018. The tenant improvement allowances are amortized on a straight-line basis over the life of the lease, with amortized values of \$4,515 and \$15,348 at December 31, 2019 and 2018, respectively.

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
CONTINUED

NOTE 6 - LEASE COMMITMENTS - CONTINUED

The rental payments required under operating leases are presented as follows:

2020	\$ 1,196,629
2021	822,780
2022	780,417
2023	601,792
2024	534,465
Thereafter	<u>766,460</u>
	<u><u>\$4,702,543</u></u>

Rental expense under operating leases totaled \$1,272,972 and \$1,042,465 in 2019 and 2018, respectively.

NOTE 7 - FUNCTIONAL EXPENSES

The Organization provides health care services primarily to residents within its geographic area. The costs of providing the various programs and activities have been summarized on a functional basis. 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 depreciation, which is allocated on the basis of estimated asset usage, rent, which is allocated on the basis of estimated facility usage, as well as salaries, wages, and benefits, which are allocated on the basis of estimates of time and effort.

NOTE 8 - RETIREMENT PLAN

The Organization has a 401(k) plan covering substantially all employees. Contributions to the plan are at the discretion of the Organization's employees. The Organization's contributions to the plan are determined annually by the board of directors. There were no contributions made to the plan by the Organization in 2019 or 2018.

NOTE 9 - CONCENTRATIONS

PATIENT SERVICE REVENUE

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. The mix of patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2019 and 2018 was:

	<u>2019</u>	<u>2018</u>
Medicaid/CHIP	48%	54%
Private insurance	32%	40%
Medicare	14%	4%
Self-pay	6%	2%
	<u>100%</u>	<u>100%</u>

GRANT REVENUE

The Organization participates in several grant programs administered by the U.S. Department of Health and Human Services (HHS) and a substantial portion of the Organization's revenue is derived from these programs. During the years ended December 31, 2019 and 2018, support received directly from HHS or passed through state and private agencies represented approximately 23% and 24%, respectively, of total revenue.

ACCOUNTS RECEIVABLE

The Organization grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2019 and 2018, was:

	<u>2019</u>	<u>2018</u>
Medicaid/CHIP	54%	44%
Private insurance	40%	37%
Other third-party payers and patients	6%	19%
	<u>100%</u>	<u>100%</u>

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
CONTINUED

NOTE 9 – CONCENTRATIONS – CONTINUED

PHYSICIANS

The Organization is dependent on local physicians practicing in its service area to utilize clinic services on an outpatient basis. A decrease in the number of physicians providing these services or a change in their utilization patterns may have an adverse effect on clinic operations.

NOTE 10 – LIQUIDITY

The Organization has \$4,986,972 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$1,140,379, patient accounts receivable of \$2,961,984, and grant receivable of \$884,609. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 5, the Organization also has a committed line of credit in the amount of \$500,000, with \$0 drawn at December 31, 2019 that can be drawn upon to meet liquidity needs.

NOTE 11 - CONTINGENCIES

From time to time, the Organization may be involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Company is a party for which management believes the ultimate outcome would have a material adverse effect on the Organization's financial position.

NOTE 12 - SUBSEQUENT EVENTS

Subsequent to the financial statement date but before the financials were available to be issued, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As a result of the COVID-19 virus pandemic, there has been disruption in businesses and markets worldwide. As a result of the economic downturn related to COVID-19 that occurred since December 31, 2019, Special Health Resources for Texas, Inc. cannot reasonably estimate the length or severity of this disruption, or the extent to which the disruption may materially impact its future financial position, results of operations and cash flows. However, the Organization has taken steps to mitigate the financial impact including furloughing employees, cost reductions, and successful implementation of Federal relief funds (noted below). Management's most recent internal financial statements report that as of April 30th, 2020 the Organization had positive operating results, current assets in excess of current liabilities, and no outstanding balances on the line of credit or other long-term debt.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, appropriated funds to promote continued employment through a Paycheck Protection Program administered by the U.S. Small Business Administration. The program provides loan forgiveness to employers based upon certain defined criteria. The Organization elected to apply for and has received a Paycheck Protection Program ("PPP") loan in the amount of \$1,964,598. The Organization is actively monitoring its compliance with the PPP loan in an effort to receive forgiveness of the loan in its entirety.

In addition, funds were also appropriated for the U.S. Department of Health and Human Services to provide relief to medical providers based on their Medicare fee-for-service billings and additional funding for Rural Health Clinics. The Organization received a cumulative total of \$4,384,284 provided by the U.S Department of Health and Human Services and its agency, the Health Resources and Services Administration (HRSA). Management believes they can fully utilize this funding for allowable costs during the award period, with no repayment of these funds.

The Organization has evaluated subsequent events through June 16, 2020, the date on which the financial statements were available to be issued.

**GOVERNMENTAL COMPLIANCE
SECTION**



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

To the Board of Directors
Special Health Resources for Texas, Inc.
Longview, 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 financial statements of Special Health Resources for Texas, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Special Health Resources for 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization'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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 the organization's 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 the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry E. Peters, PC

Longview, Texas
June 16, 2020



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

To the Board of Directors
Special Health Resources for Texas, Inc.
Longview, Texas

Report on Compliance for Each Major Federal Program

We have audited Special Health Resources for 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 Special Health Resources for Texas, Inc.'s major federal programs for the year ended December 31, 2019. The organization'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 the 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 the organization'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 the organization'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 unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of the organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Special Health Resources for 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

Special Health Resources for Texas, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Special Health Resources for 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.

Report on Internal Control Over Compliance

Management of Special Health Resources for 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 the organization'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 the organization'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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Special Health Resources for Texas, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Special Health Resources for 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.

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.

Henry E. Peters, PC

Longview, Texas
June 16, 2020



**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes <u> X </u> None reported
Noncompliance material to financial statements noted?	_____ Yes <u> X </u> No

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	<u> X </u> Yes _____ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes <u> X </u> None reported

Type of auditors' report issued on compliance for major programs:

All major programs and compliance requirements	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	_____ Yes <u> X </u> No
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Major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.527	Grants for New and Expanded Services under the Health Center Program
93.917	HIV Care Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
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Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No
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Section II - Findings Required to be Reported by *Government Auditing Standards*

No matters requiring reporting were noted.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(CONTINUED)**

Section III - Findings Required to be Reported by the Uniform Guidance

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING 2019-001	CFDA 93.527 Grants for New and Expanded Services under the Health Center Program
<i>Criteria or specific requirement:</i>	Grantee health centers must prepare and apply a sliding fee discount schedule so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay.
<i>Condition:</i>	The Organization adopted a Sliding Fee Discount Schedule based on current Federal poverty guidelines; however they failed to consistently document the patient's assessment for the discount.
<i>Context:</i>	8 out of 40 patients tested (20%) did not have documentation of the sliding fee discount assessment. We were unable to determine whether the sliding fee discount was properly applied to these patients.
<i>Effect:</i>	The effect is reportable non-compliance with the Special Tests compliance requirement for this grant. Further, the Organization has a material weakness in internal controls over compliance.
<i>Cause:</i>	The Organization's internal control over compliance was properly designed to ensure patients were assessed for ability to pay; however it was not operating effectively during the period under audit.
<i>Recommendation:</i>	It is recommended that the Organization ensure that the Sliding Fee Discount Form is completed for every patient on their initial visit, updated annually, and included within their patient record. The form documents the patient's household income and eligible dependents to properly assess their ability to pay based upon the Federal poverty guidelines.
<i>Views of responsible officials and planned corrective actions:</i>	Management agrees with the findings and will take corrective action to enhance current systems to improve redundancy and quality assurance on a company wide basis in order to prevent reoccurrence.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
FEDERAL AWARDS				
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Direct Programs:				
<u>Health Centers Cluster:</u>				
Affordable Care Act Grants for New and Expanded Services under the Health Center Program*	93.527	H80CS28363	\$ 1,328,797 +	\$ -
Substance Abuse and Mental Health Services - Projects of Regional and National Significance:	93.243			
Comprehensive HIV AIDS Minority Prevention Strategy		SP021250	242,819	-
Treatment & Recovery from Opioid Withdrawals		TI080731	482,587	-
Healthy AIDS Recovery Program		SM080542	582,114	-
Helping the Homeless Overcome Mental Exclusion		TI080507	365,927	-
Parent, Adolescent and Recovery Treatment Services		TI081215	614,976	-
Social Navigation & Abstinence Prevention Program		SP080250	<u>20,687</u>	<u>-</u>
Total Substance Abuse and Mental Health Services Projects of Regional and National Significance			2,309,110	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	18H76HA01705	<u>395,818</u>	<u>-</u>
Total Direct Programs			4,033,725	-
Pass-Through Houston Regional HIV/AIDS Resource Group:				
HIV Care Formula Grants:	93.917			
Short Term Rental, Mortgage, Utilities (STRMU), Tenant Based Rental Assistance (TBRA), Support Services and Administrative Costs		20SHR00HP-06 20SHR00HP-05 19SHR00HP-06 19SHR00HP-05	540,346	-
Medical Transportation, Outpatient Ambulatory Medical Care, Medical Case Management, AIDS Pharmaceutical Assistance, and Health Insurance Premiums and Cost Sharing Assistance, Oral Health Care, and Emergency Financial Assistance		20SHR00PTB-06 20SHR00PTB-05 19SHR00PTB-06 19SHR00PTB-05	<u>1,108,039</u>	<u>-</u>
Total HIV Care Formula Grants			1,648,385 +	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	20SHR00RWC-06 19SHR00RWC-06	<u>98,550</u>	<u>-</u>
Total Pass-Through Houston Regional HIV/AIDS Resource Group			1,746,935	-

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
Pass-Through Women's Health and Family Planning Association of Texas: Women's Health - Title X	93.217	FPHPA006394-01	173,584	-
Pass-Through Texas Health and Human Services Commission Block Grants for Prevention and Treatment of Substance Abuse:	93.959			
Treatment Youth Services (SA/TRY)		2016-048560-003 201909 2016-048560-003 201809	61,641	-
HIV Early Intervention Services (SA/HEI)		2016-048272-003 201909 2016-048272-003 201809	159,762	-
HIV Outreach Services (SA/HIV)		2016-048207-003 201909 2016-048207-003 201809	162,544	-
Opioid STR	93.788	2016-048560-003 2016-048207-003	40,424	-
Total Block Grants for Prevention and Treatment of Substance Abuse			424,371	-
Total Federal Awards			\$ 6,378,615	\$ -
+ Major Program				

Cluster Title

* Health Center Cluster

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2019

NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Special Health Resources for Texas, Inc. under programs of the federal government for the year ended December 31, 2019. The Organization's reporting entity is defined in Note 1 to the Organization's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

NOTE 2 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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 Special Health Resources for Texas, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Special Health Resources for Texas, Inc.

NOTE 3 - 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.

NOTE 4 - INDIRECT COST RATE

For indirect costs, the amounts expended are claimed as an indirect cost recovery using an approved cost allocation plan. The Organization has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019**

		<u>Status</u>
FINDING 2017-002, 2018-002: Procurement		
<i>Condition:</i>	Established internal controls over procurement were properly designed, but not operating effectively.	Resolved
<i>Effect:</i>	There is a reasonable possibility that noncompliance with the procurement compliance requirements may not be prevented, detected or corrected.	
FINDING 2018-001: Material Weakness and Material Non-compliance on Internal Control Over Compliance		
<i>Condition:</i>	The Organization is required to establish and maintain internal control over eligibility for program services to ensure that only eligible costs are being charged to the grant.	Resolved
<i>Effect:</i>	Instances of non-compliance with Eligibility compliance requirement were noted, which resulted in non-compliance material to the program and a modified opinion on Eligibility.	

SPECIAL HEALTH RESOURCES FOR Texas, Inc.
CORRECTIVE ACTION PLAN
DECEMBER 31, 2019

Findings Required to be Reported by the Uniform Guidance

Reference Number: 2019-001

Recommendation:

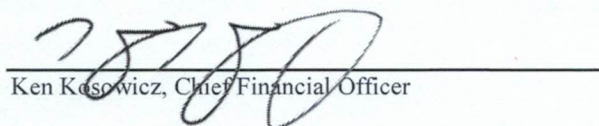
It is recommended that the Organization ensure that the Sliding Fee Discount Form is completed for every patient on their initial visit, updated annually, and included within their patient record. The form documents the patient's household income and eligible dependents to properly assess their ability to pay based upon the Federal poverty guidelines.

Corrective Action Plan:

Management will take corrective action to enhance current systems to improve redundancy and quality assurance on a company wide basis in order to prevent reoccurrence.



David Hayes, Chief Executive Officer



Ken Kosowicz, Chief Financial Officer