

**HEART OF TEXAS
REGIONAL ADVISORY COUNCIL**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

**HEART OF TEXAS
REGIONAL ADVISORY COUNCIL**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of
Heart of Texas Regional Advisory Council
Waco, Texas

We have audited the accompanying financial statements of Heart of Texas Regional Advisory Council (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heart of Texas Regional Advisory Council as of December 31, 2018 and 2017, 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
July 24, 2019

FINANCIAL STATEMENTS

HEART OF TEXAS REGIONAL ADVISORY COUNCIL

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 109,708 | \$ 29,354 |
| Grants receivable | 26,701 | 18,011 |
| Accounts receivable | 9,437 | 28,971 |
| Accounts receivable - related party | 5,377 | - |
| Prepaid expenses and other assets | <u>-</u> | <u>500</u> |
| Total current assets | 151,223 | 76,836 |
| Property and equipment, net | <u>-</u> | <u>6,116</u> |
| Total assets | <u>\$ 151,223</u> | <u>\$ 82,952</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,148 | \$ 5,506 |
| Accrued expenses | <u>4,916</u> | <u>2,420</u> |
| Total current liabilities | 9,064 | 7,926 |
| Total liabilities | 9,064 | 7,926 |
| Net assets: | | |
| Without donor restrictions | <u>142,159</u> | <u>75,026</u> |
| Total net assets | <u>142,159</u> | <u>75,026</u> |
| Total liabilities and net assets | <u>\$ 151,223</u> | <u>\$ 82,952</u> |

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

HEART OF TEXAS REGIONAL ADVISORY COUNCIL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Totals 2018</u> |
|------------------------------|---------------------------------------|------------------------------------|------------------------|
| REVENUE | | | |
| Grants | \$ 175,703 | \$ - | \$ 175,703 |
| Donated facilities | 48,272 | - | 48,272 |
| Program income | 65,520 | - | 65,520 |
| Other income | 97,231 | - | 97,231 |
| Local contributions | <u>2,752</u> | <u>-</u> | <u>2,752</u> |
| Total revenues | <u>389,478</u> | <u>-</u> | <u>389,478</u> |
| EXPENSES | | | |
| Program expenses | 293,692 | - | 293,692 |
| Support expenses | <u>28,653</u> | <u>-</u> | <u>28,653</u> |
| Total expenses | <u>322,345</u> | <u>-</u> | <u>322,345</u> |
| CHANGE IN NET ASSETS | 67,133 | - | 67,133 |
| NET ASSETS, BEGINNING | <u>75,026</u> | <u>-</u> | <u>75,026</u> |
| NET ASSETS, ENDING | <u>\$ 142,159</u> | <u>\$ -</u> | <u>\$ 142,159</u> |

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

HEART OF TEXAS REGIONAL ADVISORY COUNCIL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Totals 2017</u> |
|------------------------------|---------------------------------------|------------------------------------|------------------------|
| REVENUE | | | |
| Grants | \$ 542,048 | \$ - | \$ 542,048 |
| Donated facilities | 91,899 | - | 91,899 |
| Program income | 14,509 | - | 14,509 |
| Other income | 88,925 | - | 88,925 |
| Local contributions | <u>7,175</u> | <u>-</u> | <u>7,175</u> |
| Total revenues | <u>744,556</u> | <u>-</u> | <u>744,556</u> |
| EXPENSES | | | |
| Program expenses | 650,237 | - | 650,237 |
| Support expenses | <u>83,271</u> | <u>-</u> | <u>83,271</u> |
| Total expenses | <u>733,508</u> | <u>-</u> | <u>733,508</u> |
| CHANGE IN NET ASSETS | 11,048 | - | 11,048 |
| NET ASSETS, BEGINNING | <u>63,978</u> | <u>-</u> | <u>63,978</u> |
| NET ASSETS, ENDING | <u>\$ 75,026</u> | <u>\$ -</u> | <u>\$ 75,026</u> |

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

HEART OF TEXAS REGIONAL ADVISORY COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

| | <u>Program Expenses</u> | <u>Support Expenses</u> | <u>Total</u> |
|----------------------------|-----------------------------|-----------------------------|-----------------------|
| Equipment for members | \$ 7,273 | \$ - | \$ 7,273 |
| Salaries and wages | 117,601 | 20,753 | 138,354 |
| Occupancy | 48,272 | - | 48,272 |
| Depreciation/amortization | 2,359 | - | 2,359 |
| Employee benefits | 11,101 | 1,959 | 13,060 |
| Payroll taxes | 7,825 | 1,381 | 9,206 |
| Telephone/telecom | 1,996 | 352 | 2,348 |
| Contract services | 20,305 | - | 20,305 |
| Staff training/development | 49,457 | - | 49,457 |
| Office supplies | 10,144 | 1,790 | 11,934 |
| Travel & meetings | 6,197 | 1,094 | 7,291 |
| Insurance | 2,010 | - | 2,010 |
| Equipment and maintenance | 585 | - | 585 |
| Memberships and dues | 927 | - | 927 |
| Bad debt | 136 | - | 136 |
| Other | <u>7,504</u> | <u>1,324</u> | <u>8,828</u> |
| Total expenses | <u>\$ 293,692</u> | <u>\$ 28,653</u> | <u>\$ 322,345</u> |

HEART OF TEXAS REGIONAL ADVISORY COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

| | <u>Program Expenses</u> | <u>Support Expenses</u> | <u>Total</u> |
|----------------------------|-----------------------------|-----------------------------|-----------------------|
| Equipment for members | \$ 49,923 | \$ - | \$ 49,923 |
| Salaries and wages | 280,639 | 53,284 | 333,923 |
| Occupancy | 93,657 | - | 93,657 |
| Depreciation/amortization | 17,966 | - | 17,966 |
| Employee benefits | 35,233 | 14,659 | 49,892 |
| Payroll taxes | 17,958 | 4,809 | 22,767 |
| Telephone/telecom | 5,395 | 1,182 | 6,577 |
| Contract services | 80,951 | - | 80,951 |
| Staff training/development | 14,162 | - | 14,162 |
| Office supplies | 16,690 | 2,291 | 18,981 |
| Travel & meetings | 14,403 | 1,602 | 16,005 |
| Insurance | 2,895 | - | 2,895 |
| Equipment and maintenance | 3,088 | - | 3,088 |
| Memberships and dues | 1,975 | - | 1,975 |
| Bad debt | 3,494 | - | 3,494 |
| Other | <u>11,808</u> | <u>5,444</u> | <u>17,252</u> |
| Total expenses | <u>\$ 650,237</u> | <u>\$ 83,271</u> | <u>\$ 733,508</u> |

HEART OF TEXAS REGIONAL ADVISORY COUNCIL

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 67,133 | \$ 11,048 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 2,359 | 17,966 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 19,534 | (16,844) |
| (Increase) decrease in accounts receivable - related party | (5,377) | |
| (Increase) decrease in grants receivable | (8,690) | 42,894 |
| (Increase) decrease in prepaid expenses | 500 | 8,779 |
| Increase (decrease) in accounts payable and accrued expenses | 1,138 | (23,662) |
| Increase (decrease) in deferred revenue | <u>-</u> | <u>(64,364)</u> |
| Net cash provided (used) by operating activities | 76,597 | (24,183) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Loss on disposal of fixed assets | <u>3,757</u> | <u>-</u> |
| Net cash provided (used) by investing activities | <u>3,757</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 80,354 | (24,183) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>29,354</u> | <u>53,537</u> |
| CASH AND CASH EQUIVALENTS, ENDING OF YEAR | <u>\$ 109,708</u> | <u>\$ 29,354</u> |

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

**HEART OF TEXAS
REGIONAL ADVISORY COUNCIL**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

1. ORGANIZATION

Heart of Texas Regional Advisory Council (the "Organization" or "HOTRAC") is a non-profit corporation organized to develop an emergency healthcare network for the five-county Trauma Service Area (TSA) M including Bosque, Falls, Hill, Limestone, and McLennan counties, and to improve the level of care provided to injured persons living or traveling through this Region. The Organization provides infrastructure and leadership for its member organizations, which include hospitals, EMS providers, health districts, fire departments, and certain municipalities. HOTRAC provides injury prevention, education to the public, and trauma and emergency education to health care providers in each of the five counties. HOTRAC also oversees the development and implementation of health and medical disaster preparedness and response within the five counties in TSA M as well as the seven counties that make up TSA N including Brazos, Burleson, Grimes, Leon, Madison, Robertson, and Washington counties and the six counties that make up TSA L including Bell, Coryell, Hamilton, Lampasas, Milam, and Mills. HOTRAC is also the Lead Organization for Emergency Medical Task Force (EMTF) – 7 which includes TSA L, M, N, and O. The Organization's revenue is provided primarily by grants from the Texas Department of State Health Services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities in accordance with generally accepted accounting principles ("GAAP").

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in the financial statements accordingly.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Such net assets are available for any purpose consistent with the Organization's mission.

Net Assets With Donor Restrictions – Net assets subject to specific, donor-imposed restrictions that must be met by actions of the Organization and/or passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The Organization’s significant estimates include the useful lives of property and equipment and the market value of donated facilities.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. There are no cash equivalents as of December 31, 2018 and 2017.

The Organization has decided to designate certain cash balances into separate accounts in order to designate these funds for specific programs as directed by the Board of Directors. These designated cash balances are reflected on the Statement of Financial Position in cash and cash equivalents. Designated cash as of December 31, 2018 and 2017, was \$55,347 and \$17,525, respectively.

Grants Receivable

Amounts recorded as grants receivable include amounts due from the Texas Department of State Health Services. The Organization considers these receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Property and Equipment

Property and equipment are carried at cost and depreciated using the straight-line method of depreciation over their estimated useful lives. The Organization capitalizes additions of property and equipment in excess of \$1,000. Asset lives are as follows:

| <u>Assets</u> | <u>Years</u> |
|--------------------------------|--------------|
| Office furniture and equipment | 3 - 5 |
| Vehicles | 5 |
| Response equipment | 5 - 10 |

Maintenance and minor repairs are charged to operations when incurred. When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in current operations.

Designation of Net Assets Without Donor Restrictions

It is the policy of the Board of Directors of the Organization to review its plans for future property improvements and acquisitions from time to time and to designate appropriate sums of net assets without donor restrictions to assure adequate financing of such improvements and acquisitions. Board designated net asset as of December 31, 2018 and 2017 were \$55,347 and \$17,525, respectively.

Revenue Recognition

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Support expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Grant Revenue, Contributions and Cost Recognition

Grants are received from the federal and state governments. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. Revenues on fee for service contracts are recognized when the services required by the contractual agreements are satisfactorily performed. These revenues are generally considered exchange transactions and are thereby recorded as revenues without donor restrictions. Funding received in advance of the applicable revenue recognition criteria is recorded, if applicable, as refundable advances in the statements of financial position.

Contributions are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets are restricted support if they are received with donor stipulations that limit their use.

The Organization reports gifts of fixed assets as revenue without donor restrictions 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. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service, absent explicit donor stipulations about how long these long-lived assets must be maintained.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Compensated Absences

Compensated absences for sick time is not paid out when the employee leaves and vacation is not carried over at the end of each year unless approved by management. No vacation carryover was approved for the years ended December 31, 2018 and 2017. The Organization's policy is to recognize these costs when actually paid.

Income Taxes

The Organization is a tax exempt organization for federal income tax purposes under Internal Revenue Code Section 501(c)(3) as long as the income derived is from the activities for which its charitable exemption was granted. Unrelated business income is subject to federal income taxes at corporate tax rates. The Organization had no unrelated business income in the years ended December 31, 2018 and 2017. There were also no uncertain tax positions in either year.

The Organization's tax returns are generally no longer subject to examination by the Internal Revenue Service after three years.

3. CONCENTRATIONS

Concentration of Credit Risk

The Organization maintains its cash balances in local financial institutions. All accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per each depositor at each separately chartered FDIC insured institution. As of December 31, 2018 and 2017, all of the Organization's cash balances were fully insured.

Concentration of Funding Source

Grant revenue from contracts with the Department of State Health Services (DSHS) represented 45.1% and 63.1% of HOTRAC's total support revenue during the years 2018 and 2017, respectively. Historically the majority of the Organization's grant contracts with DSHS are renewed annually. In the current year a significant federal grant expired and was not renewed resulting in decreased grant revenue in the current year and is expected to have an effect moving forward. The Organization's operations and program services will be significantly impacted if these funds are not replaced.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|----------------|-----------------|
| Office furniture and equipment | \$ 43,051 | \$ 66,016 |
| Response equipment | 142,477 | 214,638 |
| Vehicles | - | 30,895 |
| | <u>185,528</u> | <u>311,549</u> |
| Less accumulated depreciation | (185,528) | (305,433) |
| Total property and equipment, net | <u>\$ -</u> | <u>\$ 6,116</u> |

Depreciation expense totaled \$2,359 and \$17,966 during 2018 and 2017, respectively.

5. DONATED FACILITIES

The Organization uses offices in a building owned by Baylor Scott & White - Hillcrest Medical Center. During 2018 and 2017, \$48,272 and \$91,899, was recognized as income (donated facilities) and occupancy expense in the accompanying financial statements for the fair market value of the donated facilities. This amount represents the estimated fair value of the facilities being provided.

6. ITEMS PURCHASED FOR MEMBERS

One of the primary ways that the Organization fulfills its mission to improve the level of medical care provided to persons within its Trauma Service Area is by purchasing and distributing medical equipment and supplies to member organizations via permanent loan agreements. The Organization retains no financial responsibility or liability with respect to assets distributed. Items purchased for members totaled \$1,992 and \$41,445 during 2018 and 2017, respectively. This decrease is largely due to changes in grant funding in relation to the HPP grant that expired in the prior year.

7. PROGRAM COSTS AND FEDERAL AND STATE EXPENDITURES

The reconciliation of program costs as reported in the statement of activities to expenditures of federal and state awards as reported in the supplementary schedule of expenditures of federal and state awards is as follows for the years ended December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Program costs | \$ 322,345 | \$ 733,508 |
| Program costs not charged: | | |
| Depreciation/amortization | (2,359) | (17,966) |
| Occupancy | (49,607) | (99,618) |
| Other | <u>(94,676)</u> | <u>(73,876)</u> |
| Expenditures of federal and state awards | <u>\$ 175,703</u> | <u>\$ 542,048</u> |

8. RELATED PARTY TRANSACTIONS

In 2018 the Organization was engaged by Central Texas Regional Advisory Council ("CTRAC") who has a similar mission to HOTRAC to contract the Executive Director of the Organization as CTRAC's acting Executive Director. As part of the agreement CTRAC pays HOTRAC for services provided and HOTRAC appropriately records revenue and accounts receivable associated with the services. Due to the individual's significant influence over both organizations CTRAC is considered a related party under GAAP.

The organization earned revenue for contracted services with CTRAC in the amount of \$48,788 for the year ended December 31, 2018. Accounts receivable related to CTRAC totaled \$5,377 as of December 31, 2018.

9. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use because of contractual, donor-imposed restrictions or board-imposed restrictions within one year of the balance sheet date. Amounts not available could include amounts set aside for long-term investing in quasi-endowments that could be drawn upon if the governing board approves that action, or amounts that have been set aside to satisfy imposed restrictions by either the donor or the board.

| | | |
|---|----|---------------|
| Cash and cash equivalents | \$ | 109,708 |
| Grants receivable | | 26,701 |
| Accounts receivable | | 9,437 |
| Accounts receivable - related party | | <u>5,377</u> |
| Financial assets, at year-end | | 151,223 |
| Less: | | |
| Assets with board designations | | <u>55,347</u> |
| Financial assets available to meet cash needs for general expenditures within one year | \$ | <u>95,876</u> |

The Organization has a cash account that has been set aside to satisfy board designations as discussed in Footnote 2. As part of the Organization's liquidity management plan, it generates a robust annual budget to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 24, 2019, the issuance date of this report. No events requiring disclosure were noted.