

**Harris County Emergency
Services District #1**

Financial Statements
and Independent Auditors' Report
for the year ended September 30, 1998
and the nine months ended September 30, 1997

Blazek & Vetterling LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Commissioners of
Harris County Emergency Services District #1:

We have audited the accompanying balance sheets of Harris County Emergency Services District #1 as of September 30, 1998 and 1997, and the related statements of revenues, expenses, and changes in fund balance and of cash flows for the year ended September 30, 1998 and the nine months ended September 30, 1997. These financial statements are the responsibility of the management of Harris County Emergency Services District #1. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harris County Emergency Services District #1 as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the year ended September 30, 1998 and the nine months ended September 30, 1997 in conformity with generally accepted accounting principles.

Blazek & Vetterling

January 22, 1999

Harris County Emergency Services District #1

Balance Sheets as of September 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 315,294	\$ 337,872
Taxes receivable, less allowance for uncollectible items of \$163,253 in 1998 and \$118,502 in 1997	17,905	596,180
Fees for service receivable, less allowance for uncollectible items of \$326,112	81,593	
Other receivables and prepaid expenses	<u>26,183</u>	<u>12,729</u>
Total current assets	<u>440,975</u>	<u>946,781</u>
Fixed assets:		
Land	25,203	25,203
Building and improvements	177,177	163,480
Ambulances and other vehicles	913,434	911,524
Furniture and equipment	257,685	208,004
Accumulated depreciation	<u>(805,775)</u>	<u>(535,059)</u>
Fixed assets, net	<u>567,724</u>	<u>773,152</u>
TOTAL ASSETS	<u>\$1,008,699</u>	<u>\$1,719,933</u>
LIABILITIES AND FUND BALANCE		
Current liabilities:		
Accounts payable and accrued expenses	\$ 42,680	\$ 44,361
Current portion of capital lease obligations (Note 3)	<u>73,842</u>	<u>135,506</u>
Total current liabilities	116,522	179,867
Capital lease obligations, net of current portion (Note 3)	<u>2,024</u>	<u>95,256</u>
Total liabilities	118,546	275,123
Fund balance	<u>890,153</u>	<u>1,444,810</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$1,008,699</u>	<u>\$1,719,933</u>

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Statements of Revenues, Expenses and Changes in Fund Balance
for the year ended September 30, 1998 and the nine months ended September 30, 1997

	<u>1998</u>	<u>1997</u>
REVENUES:		
Taxes	\$ 876,170	\$ 568,791
Fee for services:		
Patients	227,404	
Insurance	162,577	
Investment income	17,167	23,559
Other income	<u>14,956</u>	<u>2,419</u>
Total revenues	<u>1,298,274</u>	<u>594,769</u>
EXPENSES:		
Salary and payroll taxes	363,417	107,764
Bad debt expense	353,139	50,377
Depreciation	270,716	181,382
Responder program equipment and supplies	130,549	23,159
Legal and other professional fees	48,266	99,033
Station rent and improvements	30,766	26,490
Ambulance and vehicle repairs	28,417	33,000
Insurance	27,984	16,544
Interest	15,186	14,369
Equipment repairs	8,263	1,761
Harris County Appraisal District fees	7,090	8,388
Telephone	6,672	5,117
Public relations	5,679	3,893
Office supplies	4,137	3,477
Auto mileage and parking	1,287	1,154
Service provider contract – Harris County Emergency Corps		227,069
Property write-offs		18,572
Other	<u>8,593</u>	<u>4,452</u>
Total expenses	<u>1,310,161</u>	<u>826,001</u>
REVENUES OVER EXPENSES	(11,887)	(231,232)
Fund balance, beginning of year before restatement	1,444,810	1,676,042
Adjustment to restate beginning fund balance (<i>Note 6</i>)	<u>(542,770)</u>	<u> </u>
Fund balance, end of year	<u>\$ 890,153</u>	<u>\$1,444,810</u>

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Statements of Cash Flows

for the year ended September 30, 1998 and the nine months ended September 30, 1997

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Revenues over (under) expenses	\$ (11,887)	\$ (231,232)
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	270,716	181,382
Net loss on disposition of assets		16,153
Change in operating assets and liabilities:		
Taxes receivable	35,505	193,953
Fee for services receivable	(81,593)	
Other receivables and prepaid expenses	(13,454)	(10,105)
Accounts payable and accrued expenses	<u>(1,681)</u>	<u>31,054</u>
Net cash provided by operating activities	<u>197,606</u>	<u>181,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	<u>(65,288)</u>	<u>(204,186)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	<u>(154,896)</u>	<u>(155,612)</u>
NET DECREASE IN CASH	(22,578)	(178,593)
Cash and cash equivalents, beginning of year	<u>337,872</u>	<u>516,465</u>
Cash and cash equivalents, end of year	<u>\$ 315,294</u>	<u>\$ 337,872</u>

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Notes to Financial Statements

for the year ended September 30, 1998 and the nine months ended September 30, 1997

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Harris County Emergency Services District #1 (the District) was approved by the voters of Harris County on May 4, 1991. The purpose of the District is to provide emergency ambulance services and medical aid, generally within the boundaries of the District in North Harris County.

The District is governed by a five-member Board of Commissioners, members of which are appointed by Harris County Commissioners' Court. The District's operating budget is subject to approval by Commissioners' Court. The District's share of County property tax levy of \$.03 per \$100 of valuation is set by the legislature of the State of Texas. The Harris County Appraisal District collects such taxes.

Federal income tax status – The District is exempt from federal income taxes as a political subdivision of the State of Texas.

Cash equivalents include highly liquid investments with original maturities of three months or less and are grouped with cash on the balance sheet. Cash equivalents consisted of money market accounts totaling approximately \$304,000 and \$376,000 at September 30, 1998 and 1997, respectively.

Fixed assets are stated at cost; items costing less than \$500 are expensed when purchased. Depreciation is calculated using the straight-line method over estimated useful lives of twenty years for the building, ten years for improvements and three to five years for other depreciable assets.

Tax revenues are recognized in the year of assessment.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were used.

NOTE 2 – SERVICE PROVIDER CONTRACT

During 1997 and eleven months of 1998 the District provided emergency medical services through a contract with an independent service provider. The District contracted with Harris County Emergency Corps, an unrelated non-profit organization, for these services through July 31, 1997. For the period August 1, 1997 through August 31, 1998, the District contracted with

American Medical Response (AMR) for the provision of these services. Effective September 1, 1998, the District directly provides these services.

NOTE 3 – CAPITAL LEASE OBLIGATIONS

The District purchased various equipment that was financed through capital lease agreements. Property acquired in this manner is grouped with other fixed assets in the balance sheet and consisted of the following equipment:

	<u>1998</u>	<u>1997</u>
Ambulances and other vehicles	\$ 431,093	\$ 431,093
Equipment	<u>140,039</u>	<u>140,039</u>
Total	571,132	571,132
Less accumulated depreciation	<u>(371,328)</u>	<u>(220,796)</u>
Net fixed assets under capital lease	<u>\$ 199,804</u>	<u>\$ 350,336</u>

Annual payments include interest from 5.48% to 7.15%. Future minimum lease payments are due as follows:

1999	\$ 79,881
2000	<u>2,135</u>
Total obligation	82,016
Less interest	<u>(6,150)</u>
Net capital lease obligation	<u>\$ 75,866</u>

Interest expense related to capital leases was \$13,331 and \$14,369 in 1998 and 1997, respectively.

NOTE 4 – OPERATING LEASES

The District leases under one year operating leases two stations that house emergency ambulances and crews, support equipment and supplies. Lease expense was \$24,600 and \$4,100 in 1998 and 1997, respectively.

NOTE 5 – CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients, many of whom are uninsured, local residents. Management does not believe that collection experience with these patients will be favorable. Accordingly, an estimated allowance for uncollectible accounts has been provided for the entire \$227,404 accounts receivable balance due from this source at September 30, 1998.

The District maintains cash for daily operations in one banking institution. At times, total deposits at this institution exceed the federally insured limit of \$100,000 per depositor.

NOTE 6 – RESTATED BEGINNING NET ASSETS

During 1998, the District changed the method of recognizing tax revenues to coincide with its fiscal year. The effect of this change on previous years is accounted for by decreasing beginning funds balance by \$542,770.

NOTE 7 – YEAR 2000 ISSUE (UNAUDITED)

The District has considered the impact of the Year 2000 issue on its own computer applications as well as those of significant vendors. The District expects that the costs related to ensuring its systems to be year 2000 compliant will not be material to its financial position or results of operations. The District has initiated communications with significant vendors to evaluate the risk of their failure to be Year 2000 compliant and the extent to which the District may be vulnerable to such failure. However, there can be no assurance that the District will identify and resolve all significant compliance issues on a timely basis and that the costs associated with such activities will not have a material adverse effect on the District's financial position or results of operations.
