

**Harris County Emergency
Services District #1**

Financial Statements
and Independent Auditors' Report
for the years ended September 30, 1999 and 1998

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, 1999 and 1998, and the related statements of revenues, expenses, and changes in fund balance and of cash flows for the years then ended. 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, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Blazek & Vetterling

March 28, 2000

Harris County Emergency Services District #1

Balance Sheets as of September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 164,605	\$ 315,294
Taxes receivable, less allowance for uncollectible items of \$150,000 in 1999 and \$163,253 in 1998	37,498	17,905
Fees for services receivable, less allowance for uncollectible items of \$3,018,603 in 1999 and \$326,112 in 1998 (Note 2)	453,426	81,593
Other receivables and prepaid expenses	<u>13,292</u>	<u>26,183</u>
Total current assets	<u>668,821</u>	<u>440,975</u>
Fixed assets:		
Land	25,203	25,203
Building and improvements	180,385	177,177
Ambulances and other vehicles	1,076,097	913,434
Furniture and equipment	<u>281,556</u>	<u>257,685</u>
Total, at cost	1,563,241	1,373,499
Accumulated depreciation	<u>(1,054,172)</u>	<u>(805,775)</u>
Fixed assets, net	<u>509,069</u>	<u>567,724</u>
 TOTAL ASSETS	 <u>\$1,177,890</u>	 <u>\$1,008,699</u>
LIABILITIES AND FUND BALANCE		
Current liabilities:		
Accounts payable and accrued expenses	\$ 58,642	\$ 42,680
Current portion of capital lease obligations (Note 3)	<u>106,687</u>	<u>73,842</u>
Total current liabilities	165,329	116,522
Capital lease obligations, net of current portion (Note 3)	<u>44,764</u>	<u>2,024</u>
Total liabilities	210,093	118,546
Fund balance	<u>967,797</u>	<u>890,153</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$1,177,890</u>	 <u>\$1,008,699</u>

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Statements of Revenues, Expenses and Changes in Fund Balance
for the years ended September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
REVENUES:		
Taxes	\$ 929,726	\$ 876,170
Net fee for service revenue (Note 2)	4,370,927	389,981
Investment income	8,185	17,167
Other income	<u>11,372</u>	<u>14,956</u>
Total revenues	<u>5,320,210</u>	<u>1,298,274</u>
EXPENSES:		
Provision for bad debts (Note 2)	3,031,216	353,139
Salaries and payroll taxes	1,199,327	363,417
Program equipment and supplies	396,340	130,549
Depreciation	277,940	270,716
Ambulance and vehicle repairs	149,348	28,417
Station rent and improvements	54,758	30,766
Legal and other professional fees	28,659	48,266
Insurance	24,532	27,984
Telephone	19,607	6,672
Office supplies and printing	13,916	4,137
Interest	8,100	15,186
Harris County Appraisal District fees	7,456	7,090
Other	<u>31,367</u>	<u>23,822</u>
Total expenses	<u>5,242,566</u>	<u>1,310,161</u>
REVENUES OVER (UNDER) EXPENSES	77,644	(11,887)
Fund balance, beginning of year	<u>890,153</u>	<u>902,040</u>
Fund balance, end of year	<u>\$ 967,797</u>	<u>\$ 890,153</u>

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Statements of Cash Flows for the years ended September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Revenues over (under) expenses	\$ 77,644	\$ (11,887)
Adjustments to arrive at net cash provided (used) by operating activities:		
Depreciation and amortization	277,940	270,716
Net gain on disposition of assets	(10,262)	
Change in operating assets and liabilities:		
Taxes receivable	(19,593)	35,505
Fee for services receivable	(371,833)	(81,593)
Other receivables and prepaid expenses	12,891	(13,454)
Accounts payable and accrued expenses	<u>15,962</u>	<u>(1,681)</u>
Net cash provided (used) by operating activities	<u>(17,251)</u>	<u>197,606</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of fixed assets	12,000	
Capital expenditures	<u>(46,726)</u>	<u>(65,288)</u>
Net cash used by investing activities	<u>(34,726)</u>	<u>(65,288)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	<u>(98,712)</u>	<u>(154,896)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(150,689)	(22,578)
Cash and cash equivalents, beginning of year	<u>315,294</u>	<u>337,872</u>
Cash and cash equivalents, end of year	<u>\$ 164,605</u>	<u>\$ 315,294</u>
Supplemental disclosure:		
Assets acquired with capital lease	\$174,297	

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Notes to Financial Statements for the years ended September 30, 1999 and 1998

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. Through August 31, 1998, the District contracted with an independent service provider for the provision of emergency medical services. Effective September 1, 1998, the District directly provides these services.

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 and cash equivalents – The District maintains cash for daily operations in one banking institution; at times, total deposits exceed the federally insured limit of \$100,000 per depositor. Cash equivalents include highly liquid investments with original maturities of three months or less. Cash equivalents consisted of money market accounts totaling approximately \$165,000 and \$304,000 at September 30, 1999 and 1998, 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.

Fees for services are recognized as revenue in the period in which the services are provided. The District has agreements with third-party payors that provide for payments at amounts different from its established rates, primarily for Medicare and Medicaid discounted charges. Net fee for service revenue is reported at the estimated net realizable amounts from patients and third-party payors.

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.

Reclassifications – Certain 1998 amounts have been reclassified to conform with the 1999 financial statement presentation.

NOTE 2 – CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients, many of whom are uninsured, local residents. Other sources of fees for service are Medicare and Medicaid. The mix of revenue from patients and third party payors in 1999 was as follows:

Private-pay transports	\$2,798,206
Commercial insurance	1,191,082
Medicaid	236,538
Medicare	<u>145,101</u>
Total	<u>\$4,370,927</u>

Collection experience with private-pay transports has not been favorable and accordingly \$2,759,588 of this revenue was written off in 1999. An estimated allowance for uncollectible accounts has been provided for the entire accounts receivable balance due from this source at September 30, 1999 and 1998.

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>1999</u>	<u>1998</u>
Ambulances and other vehicles	\$ 567,609	\$ 431,093
Equipment	<u>140,039</u>	<u>140,039</u>
Total, at cost	707,648	571,132
Less accumulated depreciation	<u>(496,039)</u>	<u>(371,328)</u>
Net fixed assets under capital lease	<u>\$ 211,609</u>	<u>\$ 199,804</u>

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

2000	\$ 114,232
2001	<u>45,692</u>
Total obligation	159,924
Less interest	<u>(8,473)</u>
Net capital lease obligation	<u>\$ 151,451</u>

Interest expense related to capital leases was \$5,761 and \$13,331 in 1999 and 1998, respectively.

NOTE 4 – OPERATING LEASES

The District leases, under one year operating leases, two stations that house emergency ambulances, crews, support equipment, and supplies. Lease expense was \$25,650 and \$24,600 in 1999 and 1998, respectively.

NOTE 5 – FUNCTIONAL EXPENSES

Expenses related to providing services are categorized as follows:

	<u>1999</u>	<u>1998</u>
Emergency ambulance service	\$1,925,720	\$ 716,104
Management and general	285,630	240,918
Bad debt expense	<u>3,031,216</u>	<u>353,139</u>
Total	<u>\$5,242,566</u>	<u>\$1,310,161</u>
