

**Harris County Emergency
Services District #1**

Financial Statements
and Independent Auditors' Report
for the years ended September 30, 2000 and 1999

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, 2000 and 1999, 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

May 3, 2001

Harris County Emergency Services District #1

Balance Sheets as of September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 574,421	\$ 164,605
Taxes receivable, less allowance for uncollectible items of \$150,000 in 2000 and in 1999	58,756	37,498
Fees for services receivable, less allowance for uncollectible items of \$5,665,159 in 2000 and \$3,018,603 in 1999 (Note 3)	816,919	453,426
Other receivables and prepaid expenses	<u>25,683</u>	<u>13,292</u>
Total current assets	1,475,779	668,821
Property, plant and equipment, net (Note 2)	<u>476,367</u>	<u>509,069</u>
TOTAL ASSETS	<u>\$1,952,146</u>	<u>\$1,177,890</u>

LIABILITIES AND FUND BALANCE

Current liabilities:		
Accounts payable and accrued expenses	\$ 83,956	\$ 58,642
Current portion of capital lease obligations	<u> </u>	<u>106,687</u>
Total current liabilities	83,956	165,329
Capital lease obligations, net of current portion	<u> </u>	<u>44,764</u>
Total liabilities	83,956	210,093
Contingencies (Note 5)		
Fund balance	<u>1,868,190</u>	<u>967,797</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$1,952,146</u>	<u>\$1,177,890</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, 2000 and 1999

	<u>2000</u>	<u>1999</u>
REVENUE:		
Taxes	\$1,021,463	\$ 929,726
Net fee for service revenue <i>(Note 3)</i>	4,710,255	4,370,927
Interest income	21,831	8,185
Other income	<u>62,835</u>	<u>11,372</u>
Total revenue	<u>5,816,384</u>	<u>5,320,210</u>
EXPENSES <i>(Note 4)</i> :		
Provision for bad debts <i>(Note 3)</i>	2,658,757	3,031,216
Salaries and payroll taxes	1,314,581	1,199,327
Program equipment and supplies	381,001	396,340
Depreciation	271,088	277,940
Ambulance and vehicle repairs	51,733	149,348
Station rent and improvements	51,389	54,758
Legal and other professional fees	48,121	28,659
Insurance	36,093	24,532
Telephone	19,906	19,607
Office supplies and printing	11,231	13,916
Interest	17,826	8,100
Harris County Appraisal District fees	6,081	7,456
Other	<u>48,184</u>	<u>31,367</u>
Total expenses	<u>4,915,991</u>	<u>5,242,566</u>
REVENUE OVER EXPENSES	900,393	77,644
Fund balance, beginning of year	<u>967,797</u>	<u>890,153</u>
Fund balance, end of year	<u>\$1,868,190</u>	<u>\$ 967,797</u>

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Statements of Cash Flows for the years ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Revenue over expenses	\$ 900,393	\$ 77,644
Adjustments to arrive at net cash provided (used) by operating activities:		
Depreciation and amortization	271,088	277,940
Net gain on disposition of assets		(10,262)
Provision for bad debts	2,658,757	3,031,216
Change in operating assets and liabilities:		
Taxes receivable	(21,258)	(19,593)
Fee for services receivable	(3,022,250)	(3,403,049)
Other receivables and prepaid expenses	(12,391)	12,891
Accounts payable and accrued expenses	<u>25,314</u>	<u>15,962</u>
Net cash provided (used) by operating activities	<u>799,653</u>	<u>(17,251)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property, plant and equipment		12,000
Purchases of property, plant and equipment	<u>(46,386)</u>	<u>(46,726)</u>
Net cash used by investing activities	<u>(46,386)</u>	<u>(34,726)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	<u>(343,451)</u>	<u>(98,712)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	409,816	(150,689)
Cash and cash equivalents, beginning of year	<u>164,605</u>	<u>315,294</u>
Cash and cash equivalents, end of year	<u>\$ 574,421</u>	<u>\$ 164,605</u>
Supplemental disclosure:		
Assets acquired with capital lease	\$192,000	\$174,297

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Notes to Financial Statements for the years ended September 30, 2000 and 1999

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 Tax Assessor-Collector's Office collects such taxes and forwards them to the District. Operations of the District also are supported by insurance and private patient billings for services rendered.

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. Amounts exceeding the federally insured limit of \$100,000 per depositor are collateralized by the bank. *(Written confirmation of collateralization is pending.)* Cash equivalents include highly liquid investments with original maturities of three months or less. Cash equivalents consisted of money market accounts totaling approximately \$556,000 and \$165,000 at September 30, 2000 and 1999, respectively.

Property, plant and equipment is 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 20 years for the building, 10 years for improvements and 3 to 5 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 reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	<u>2000</u>	<u>1999</u>
Land	\$ 25,203	\$ 25,203
Construction in progress	8,820	
Building and improvements	180,385	180,385
Ambulances and other vehicles	1,273,096	1,076,097
Furniture and equipment	<u>314,123</u>	<u>281,556</u>
Total property, plant and equipment, at cost	1,801,627	1,563,241
Accumulated depreciation	<u>(1,325,260)</u>	<u>(1,054,172)</u>
Property, plant and equipment, net	<u>\$ 476,367</u>	<u>\$ 509,069</u>

NOTE 3 – CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients, many of whom are uninsured. Other sources of fees for service are Medicare and Medicaid. The mix of revenue from patients and third party payors in 2000 was as follows:

Private-pay transports	\$2,245,017
Commercial insurance	1,779,266
Medicare	353,795
Medicaid	<u>332,177</u>
Total	<u>\$4,710,255</u>

The provision for bad debts represents the difference between the amounts billed and the estimated amounts collectible related to the above fees.

NOTE 4 – FUNCTIONAL EXPENSES

Expenses related to providing services are categorized as follows:

	<u>2000</u>	<u>1999</u>
Emergency ambulance service	\$1,859,572	\$1,925,720
Management and general	397,662	285,630
Bad debt expense	<u>2,658,757</u>	<u>3,031,216</u>
Total expenses	<u>\$4,915,991</u>	<u>\$5,242,566</u>

NOTE 5 – CONTINGENCIES

The District is the defendant in a lawsuit by a former employee for benefits due to on-the-job injury. Management intends to contest the claim vigorously. Estimated potential losses range up to \$35,000.