

**Harris County Emergency
Services District #1**

Financial Statements
and Independent Auditors' Report
for the years ended September 30, 2001 and 2000

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, 2001 and 2000, 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, 2001 and 2000, 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

February 22, 2002

Harris County Emergency Services District #1

Balance Sheets as of September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 844,982	\$ 574,421
Taxes receivable, less allowance for uncollectible items of \$165,000 in 2001 and \$150,000 in 2000	58,781	58,756
Fees for services receivable, less allowance for uncollectible items of \$173,175 in 2001 and \$5,665,159 in 2000 (Note 2)	543,294	816,919
Other receivables and prepaid expenses	<u>23,109</u>	<u>25,683</u>
Total current assets	1,470,166	1,475,779
Property, plant and equipment, net (Note 3)	<u>984,720</u>	<u>476,367</u>
TOTAL ASSETS	<u>\$2,454,886</u>	<u>\$1,952,146</u>

LIABILITIES AND FUND BALANCE

Liabilities:		
Accounts payable and accrued expenses	\$ 89,985	\$ 83,956
Construction payable	<u>80,517</u>	<u> </u>
Total liabilities	170,502	83,956
Fund balance	<u>2,284,384</u>	<u>1,868,190</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$2,454,886</u>	<u>\$1,952,146</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, 2001 and 2000

	<u>2001</u>	<u>2000</u>
REVENUE:		
Net fees for services revenue (<i>Note 2</i>)	\$6,765,000	\$4,710,255
Provision for bad debts	<u>(4,811,002)</u>	<u>(2,658,757)</u>
Total net fees for services	1,953,998	2,051,498
Taxes	1,113,621	1,021,463
Interest income	35,905	21,831
Other income	<u>59,093</u>	<u>62,835</u>
Total revenue	<u>3,162,617</u>	<u>3,157,627</u>
EXPENSES (<i>Note 5</i>):		
Salaries and payroll taxes	1,744,847	1,314,581
Program equipment and supplies	432,127	381,001
Depreciation	210,611	271,088
Station rent and improvements	75,220	51,389
Ambulance and vehicle repairs	50,656	51,733
Legal and other professional fees	50,161	48,121
Insurance	49,445	36,093
Telephone	30,527	19,906
Office supplies and printing	13,845	11,231
Harris County Appraisal District fees	8,458	6,081
Interest	210	17,826
Other	<u>80,316</u>	<u>48,184</u>
Total expenses	<u>2,746,423</u>	<u>2,257,234</u>
REVENUE OVER EXPENSES	416,194	900,393
Fund balance, beginning of year	<u>1,868,190</u>	<u>967,797</u>
Fund balance, end of year	<u>\$2,284,384</u>	<u>\$ 1,868,190</u>

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Statements of Cash Flows for the years ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Revenue over expenses	\$ 416,194	\$ 900,393
Adjustments to arrive at net cash provided by operating activities:		
Depreciation	210,611	271,088
Net loss on disposition of property, plant and equipment	38,742	
Provision for bad debts	4,811,002	2,658,757
Change in operating assets and liabilities:		
Taxes receivable	(15,025)	(21,258)
Fees for services receivable	(4,522,377)	(3,022,250)
Other receivables and prepaid expenses	2,574	(12,391)
Accounts payable and accrued expenses	6,029	25,314
Construction payable	<u>80,517</u>	<u> </u>
Net cash provided by operating activities	<u>1,028,267</u>	<u>799,653</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	<u>(757,706)</u>	<u>(46,386)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations		<u>(343,451)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	270,561	409,816
Cash and cash equivalents, beginning of year	<u>574,421</u>	<u>164,605</u>
Cash and cash equivalents, end of year	<u>\$ 844,982</u>	<u>\$ 574,421</u>
 Supplemental disclosure:		
Assets acquired with capital lease		\$192,000

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Notes to Financial Statements for the years ended September 30, 2001 and 2000

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.

A five-member Board of Commissioners, members of which are appointed by Harris County Commissioners' Court, governs the District. 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. The bank collateralizes amounts exceeding 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 \$750,355 and \$556,650 at September 30, 2001 and 2000, 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.

NOTE 2 – 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 was as follows:

Private-pay transports	\$4,229,966	\$2,245,017
Commercial insurance	1,730,344	1,779,266
Medicare	414,911	353,795
Medicaid	<u>389,779</u>	<u>332,177</u>
Total	<u>\$6,765,000</u>	<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 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	<u>2001</u>	<u>2000</u>
Land	\$ 56,012	\$ 25,203
Construction in progress	446,510	8,820
Building and improvements	257,344	180,385
Ambulances and other vehicles	762,808	1,273,096
Furniture and equipment	<u>320,050</u>	<u>314,123</u>
Total property, plant and equipment, at cost	1,842,724	1,801,627
Accumulated depreciation	<u>(858,004)</u>	<u>(1,325,260)</u>
Property, plant and equipment, net	<u>\$ 984,720</u>	<u>\$ 476,367</u>

NOTE 4 – 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.

NOTE 5 – FUNCTIONAL EXPENSES

Expenses related to providing services are categorized as follows:

	<u>2001</u>	<u>2000</u>
Emergency ambulance service	\$2,231,210	\$1,859,572
Management and general	515,213	397,662
Bad debt expense	<u>4,811,002</u>	<u>2,658,757</u>
Total expenses	<u>\$7,557,425</u>	<u>\$4,915,991</u>