

**Harris County Emergency
Services District #1**

Financial Statements
and Independent Auditors' Report
for the years ended September 30, 2002 and 2001

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, 2002 and 2001 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, 2002 and 2001 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.

June 27, 2003

Harris County Emergency Services District #1Balance Sheets as of September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
Cash and cash equivalents	\$ 722,162	\$ 844,982
Taxes receivable, less allowance for uncollectible items of \$179,000 in 2002 and \$165,000 in 2001	67,339	58,781
Fees for services receivable, less allowance for uncollectible items of \$308,053 in 2002 and \$173,075 in 2001	544,645	543,294
Other receivables and prepaid expenses	28,672	23,109
Property, plant and equipment, net (<i>Note 3</i>)	<u>1,235,666</u>	<u>799,055</u>
TOTAL ASSETS	<u>\$2,598,484</u>	<u>\$2,454,886</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable and accrued expenses	\$ 141,513	\$ 89,985
Construction payable		80,517
Leases payable (<i>Note 5</i>)	<u>149,764</u>	<u> </u>
Total liabilities	291,277	170,502
Fund balance	<u>2,307,207</u>	<u>2,284,384</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$2,598,484</u>	<u>\$2,454,886</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, 2002 and 2001

	<u>2002</u>	<u>2001</u>
REVENUE:		
Net fees for services revenue <i>(Note 2)</i>	\$8,531,127	\$6,765,000
Provision for uncollectible accounts	<u>(6,702,639)</u>	<u>(4,811,002)</u>
Total net fees for services	1,828,488	1,953,998
Taxes	1,246,336	1,113,621
Interest income	14,735	35,905
Other income	<u>13,863</u>	<u>59,093</u>
Total revenue	<u>3,103,422</u>	<u>3,162,617</u>
EXPENSES <i>(Note 6)</i> :		
Salaries and payroll taxes	2,017,325	1,744,847
Program equipment and supplies	490,350	432,127
Depreciation and amortization	243,896	210,611
Station rent and operations	62,627	85,140
Insurance	60,079	49,445
Ambulance and vehicle costs	54,963	56,054
Legal and other professional fees	35,926	68,588
Office supplies, postage and printing	30,525	24,515
Telephone	27,120	30,527
Education and training	12,143	12,095
Harris County Appraisal District fees	9,471	8,458
Interest	1,321	210
Other	<u>34,853</u>	<u>23,806</u>
Total expenses	<u>3,080,599</u>	<u>2,746,423</u>
REVENUE OVER EXPENSES	22,823	416,194
Fund balance, beginning of year	<u>2,284,384</u>	<u>1,868,190</u>
Fund balance, end of year	<u>\$2,307,207</u>	<u>\$ 2,284,384</u>

See accompanying notes to financial statements.

Harris County Emergency Services District #1Statements of Cash Flows for the years ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Revenue over expenses	\$ 22,823	\$ 416,194
Adjustments to arrive at net cash provided by operating activities:		
Depreciation	243,896	210,611
Net loss on disposition of property, plant and equipment	13,380	38,742
Change in operating assets and liabilities:		
Taxes receivable	(8,558)	(15,025)
Fees for services receivable	(1,351)	288,625
Other receivables and prepaid expenses	(5,563)	2,574
Accounts payable and accrued expenses	51,528	6,029
Construction payable	<u>(80,517)</u>	<u>80,517</u>
Net cash provided by operating activities	<u>235,638</u>	<u>1,028,267</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(548,483)	(757,706)
Proceeds from sale of property, plant and equipment	<u>40,261</u>	<u> </u>
Net cash provided (used) by operating activities	<u>(508,222)</u>	<u>(757,706)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from leases payable	230,022	
Payments on leases payable	<u>(80,258)</u>	
Net cash provided by financing activities	<u>149,764</u>	
NET CHANGE IN CASH AND CASH EQUIVALENTS	(122,820)	270,561
Cash and cash equivalents, beginning of year	<u>844,982</u>	<u>574,421</u>
Cash and cash equivalents, end of year	<u>\$ 722,162</u>	<u>\$ 844,982</u>
<i>Supplemental disclosure of cash flow information:</i>		
Assets acquired with capital lease	\$194,142	

See accompanying notes to financial statements.

Harris County Emergency Services District #1

Notes to Financial Statements for the years ended September 30, 2002 and 2001

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 \$686,000 and \$750,000 at September 30, 2002 and 2001, 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, the reported amounts of revenues and expenses, and the allocation of expenses among various functions. 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:

	<u>2002</u>	<u>2001</u>
Private-pay transports	\$5,011,471	\$4,229,966
Commercial insurance	1,406,435	1,730,344
Medicare	1,247,652	414,911
Medicaid	<u>865,569</u>	<u>389,779</u>
Total	<u>\$8,531,127</u>	<u>\$6,765,000</u>

The provision for uncollectible accounts 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>2002</u>	<u>2001</u>
Land	\$ 56,012	\$ 56,012
Construction in progress		446,510
Building and improvements	709,360	185,665
Ambulances and other vehicles	951,880	762,808
Furniture and equipment	<u>538,718</u>	<u>391,729</u>
Total property, plant and equipment, at cost	2,255,970	1,842,724
Accumulated depreciation	<u>(1,020,304)</u>	<u>(858,004)</u>
Property, plant and equipment, net	<u>\$1,235,666</u>	<u>\$ 984,720</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.

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NOTE 5 – LEASES PAYABLE

During 2002, the District financed certain medical equipment and related software under capital leases. At September 30, 2002, the leases are secured by equipment with a total cost of \$194,142. No amortization was recorded on these leases during 2002.

Future minimum lease payments on capital leases are due as follows:

2003	\$ 80,258
2004	<u>80,259</u>
Total	160,517
Less interest	<u>(10,753)</u>
Total leases payable	<u>\$ 149,764</u>

The District has a land lease agreement with Harris County Rural Fire District No. 17, a political subdivision of the State of Texas, for land on which the District constructed a dispatch station. The lease is for a period of 30 years and requires annual one dollar payments.

NOTE 6 – FUNCTIONAL EXPENSES

Expenses related to providing services are categorized as follows:

	<u>2002</u>	<u>2001</u>
Emergency ambulance service	\$2,534,733	\$2,231,210
Management and general	<u>545,866</u>	<u>515,213</u>
Total expenses	<u>\$3,080,599</u>	<u>\$2,746,423</u>
