

**CYPRESS CREEK EMERGENCY MEDICAL
SERVICES ASSOCIATION**

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2011

WITH

INDEPENDENT AUDITOR'S REPORT

SVADLENAK, SEE & COMPANY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Cypress Creek Emergency Medical Services Association
Houston, Texas

We have audited the accompanying statement of financial position of Cypress Creek Emergency Medical Services Association (a non-profit association) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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 Cypress Creek Emergency Medical Services Association, as of December 31, 2011, and the changes in its net assets and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Svadlenak, See & Company P.C.

SVADLENAK, SEE & COMPANY, P.C.

March 17, 2012

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

ASSETS

Current assets:

Cash	\$ 3,802
Accounts receivables	4,673,673
Inventories	517,490
Prepaid expenses	<u>725,180</u>

Total current assets 5,920,145

Land, buildings and equipment-at cost 10,550,521

Other assets 35,985

Total assets \$16,506,651

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 942,760
Current portion of long-term debt	539,970
Deferred revenue	18,500
Accruals	<u>138,138</u>

Total current liabilities 1,639,368

Long-term debt:

Note payable 7,637,242

Commitments and contingent liabilities -

Net Assets:

Unrestricted 7,230,041

Total liabilities and net assets \$16,506,651

SEE ACCOMPANYING NOTES.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED

DECEMBER 31, 2011

Support and revenue:

Support:

Donations	\$16,322,925
Insurance billings-net	1,709,157
Educational funds	11,113
Special events-fundraisers	29,720
Dispatch fees-communications centers	<u>387,782</u>

Total support 18,460,697

Revenue:

Interest income	532
Gain (loss) on sale of property	6,453
Unrealized gain (loss) on investments/properties	<u>(6,058)</u>

Total revenue 927

Total support and revenue 18,461,624

Expenses:

Program services	14,509,613
General and administrative	<u>3,036,764</u>

Total expenses 17,546,377

Change in net assets 915,247

Net assets-unrestricted at the beginning of the year 6,314,794

Net assets-unrestricted at the end of the year \$ 7,230,041

SEE ACCOMPANYING NOTES.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED

DECEMBER 31, 2011

Cash flows from operating activities:

Change in net assets – increase (decrease)	\$ 915,247
Adjustments to reconcile change in net assets – increase (decrease) to net cash provided (used) by operating activities:	

Depreciation	1,097,811	
Unrealized gain (loss) on investments	<u>6,453</u>	
		2,019,511

Change in operating assets and liabilities:

Accounts receivable	(1,174,928)	
Inventories	(62,253)	
Prepaid expenses	(64,044)	
Other assets	(5,646)	
Accounts payable	229,446	
Deferred revenue	(1,012,521)	
Accruals	<u>(2,240)</u>	<u>(2,092,186)</u>

Net cash provided (used) by operating activities		(72,675)
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Cash flows from investing activities:

Plant and equipment purchases	(888,379)	
Retirement of fixed assets	<u>28,032</u>	(860,347)

Cash flows from financing activities:

Proceeds from long-term debt	8,489,620	
Repayment of long-term debt	<u>(8,196,271)</u>	<u>293,349</u>

Net increase (decrease) in cash		(639,673)
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Cash at the beginning of the year		<u>643,475</u>
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Cash at the end of the year		<u>\$ 3,802</u>
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Supplemental information

Interest paid in cash during the year.		<u>\$ 601,235</u>
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SEE ACCOMPANYING NOTES.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

1. Summary of significant accounting policies:

Nature of Organization

Cypress Creek Emergency Medical Services Association is a non-profit association incorporated on July 25, 1975 to provide emergency medical services and educational programs to the communities along FM 1960 from Jones Road to the Houston city limits at Humble. In October 1996, CCEMSA purchased and is now operating the FM 1960 Area Emergency Communications Center, Inc. which provides centralized emergency communications for certain fire departments and associations in the area.

Date of management's review

Subsequent events were evaluated through March 17, 2012, which is the date the financial statements were available to be issued.

Method of Accounting

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting, revenues are recorded when earned and expenses when incurred.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, support, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Financial Reporting and Financial Statement Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as applied to non-profit organizations. Cypress Creek Emergency Medical Services Association follows accounting and financial reporting guidelines set forth in the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations.

The Organization reports its financial position and activities, including contributions received, according to the classification and presentation described in Financial Accounting Standards (SFAS) No. 116, Accounting for Contributions Received and Contributions Made and Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

1. Summary of significant accounting policies: (cont'd.)

Under SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purposed restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. Under SFAS 117, information regarding financial position and activities are reported according to three classes of assets: unrestricted, temporarily restricted, and permanently restricted.

Contributions

Contributions are made by individual homeowners and are collected by municipal utility (water) districts in the area served by the Organization. Those water districts then remit the funds to the Organization.

Distributions

The Organization has a contract as the Emergency Service District #11 provider. The designated provider will receive monies from taxing authorities in order to provide these services.

Consideration of credit risk

The Organization maintains its cash in bank deposit accounts at a high credit quality financial institution. The balances, at times, may exceed federally insured limits. At December 31, 2011, the Organization did not exceed the insured limit.

Cash and cash equivalents

For purpose of the statement of cash flows, cash equivalents include all highly liquid debt instruments with an original maturity of three month or less.

Accounts receivable

Accounts receivable represent amounts due from patients, Medicare and insurance companies. All claims representing amounts due to the Organization are being processed and collected by an outside service.

The gross fees for the various services rendered are difficult to collect due the discounts and limitations placed on claims by insurance companies and the patients' inability to pay for the services. Uncollected claims and insurance adjustments totaled \$6,675,668 and \$4,762,111 respectively, are netted against insurance billings for the year ended December 31, 2011.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

1. Summary of significant accounting policies: (cont'd.)

Management feels that it is impracticable to evaluate each individual receivable (claim) due to the numerous accounts and historical data is insufficient to properly establish an accurate allowance for uncollectible accounts. Therefore, management intends to follow its previous practice and charge off the accounts to operations as they are deemed worthless.

Inventory

Inventory consists of medical supplies which are valued at the lower of cost or market using current replacement cost as market.

Property and equipment

Property and equipment are carried at cost. Depreciation is calculated utilizing the straight-line method over estimated useful lives of the assets. It is the Organization's policy to capitalize all assets with continuing value and to expense other cost as repairs and maintenance.

Donations

Donations are considered to be available for unrestricted use unless specifically restricted by the donor. Donated materials, equipment, and services are reflected as donated in the accompanying statements at their estimated value at date of receipt. Donated services consist of time donated by volunteers, drivers, emergency care technicians and assistants and paramedics. They are valued at the estimated cost that the Organization would have incurred had the Organization been required to employ individuals to provide those services.

Income Tax Status

The Organization is exempt from income taxes under section 501(C)(3) of the Internal Revenue Code.

2. Accounts receivable:

Accounts receivables as of December 31, 2011 consists of:

	<u>Amount</u>
Billings of insurance companies for services rendered	\$4,008,152
Communication center revenue from fire departments	<u>665,521</u>
Total accounts receivable	<u>\$4,673,673</u>

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

3. Land, buildings and equipment:

As of December 31, 2011, land, buildings and equipment consisted of the following:

	<u>Amount</u>	<u>Useful Lives</u>
Land	\$ 363,654	-
Buildings and improvements	9,236,777	5
Vehicles	3,126,419	5
Vehicle repair equipment	40,574	5
Bicycles	22,905	5
Communications equipment	3,315,643	3-5
Leasehold improvements	271,455	3-19
Office equipment	99,224	5
Furniture and fixtures	842,332	5-7
Medical equipment	1,219,208	5
Other equipment	<u>82,399</u>	3-5
	18,620,590	
Less: Accumulated depreciation	<u>(8,070,069)</u>	
Net assets	<u>\$10,550,521</u>	

Depreciation expense for the year ended December 31, 2011 amounted to \$1,097,811.

4. Long-term debt:

Note payable to bank dated November 10, 2010 in the original amount of \$8,100,000 accruing interest at a variable rate of approximately 4.00% at December 31, 2011. Principle and interest payments are due quarterly until maturity when the remaining principle balance and any unpaid interest will be due, at January 2021. The note is collateralized by a deed of trust and properties.

\$7,799,990

Note payable to bank dated January 15, 2011 in the original amount of \$337,620 accruing interest at a variable rate of approximately 3.00% at December 31, 2011. Principle and interest payments of \$7,466 are due in 48 monthly payments until maturity, January 2015. The note is collateralized by automotive equipment.

263,826

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

4. Long-term debt: (con't.)

Note payable to bank dated July 27, 2009 in the original amount of \$100,000 accruing interest rate of approximately 5.25% at December 31, 2011. Principle and interest payments of \$1,077 are due in 120 monthly payments until maturity, July 2019. The note is collateralized by deed of trust and properties.

80,396

Line of credit to a bank dated August 9, 2011 with a borrowing maximum of \$350,000. Interest is due monthly at prime plus .75%. Principle and any unpaid interest is due at January 22, 2013. The line of credit is unsecured.

33,000

8,177,212

Less current portion of long-term debt

539,970

Long term debt

\$7,637,242

The current maturities on the long-term debt are as follows

Year ending
December 31,

2013	\$ 526,561
2014	547,152
2015	485,419
2016	497,517
2017	517,863
Thereafter	<u>5,062,730</u>
	<u>\$7,637,242</u>

5. Pension plan:

Effective July 1, 1999, the Organization adopted a 401(K) pension plan for the Organization's employees. Employee contributions are voluntary and are made on a pretax basis. Employer contributions are based on a percentage of wages, up to a maximum of 7.00%. The employer's contributions are contributed semi-monthly. The contributions for the year ended December 31, 2011 were \$391,882.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

6. Commitments and contingencies:

A sublease exists with a fire department for Station 5. Under the terms of the lease, the Organization pays a monthly rental amount based upon the percentage of time in a calendar month that the Organization operates an advanced life support ambulance from the premises more than 60% of a 24 hour day. Since the inception of the lease, the Organization has operated an ambulance at least 95% of a 24 hour day and therefore pays a rental fee of \$515 a month. If the usage were to decrease, the rent would increase. The lease is month to month.

On October 1, 1996, a lease was entered into for station space. Rental payments are \$1,650 per month through October 31, 2013 at which time the lease expires.

The Organization has entered into a lease with a member of the ESD #11 board of directors for a facility for operations and storage which requires rental payments of \$1,000 per month. The lease is on a month to month basis.

Aggregate year minimum future rentals under the leases are as follows:

<u>December 31,</u>	<u>Amount</u>
2012	\$19,800
2013	<u>16,500</u>
	<u>\$36,300</u>

During the normal course of business, the Organization could be named in frivolous and immaterial lawsuits. It is management's opinion that any such lawsuit outstanding as of the period ended December 31, 2011 (none were known to management) would not have a material effect on the financial statements.

Substantially all of the Organization's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Organization expect such compliance to have, any material effect upon the capital expenditures, change in net assets, financial conditions or competitive position of the Organization. Management believes that its current practices and procedures for the control and disposition of such waste comply with applicable federal and state requirements.

7. Annexation:

The Organization is within the extra-territorial jurisdiction of the city of Houston, Texas (the City). The City has the power to annex, with the approval of the residents and proper legislation. Should that occur and the Organization not make servicing arrangements with the City, most services currently provided by the Organization would be provided by the City and the Organization as it is known and operates today would likely be seriously affected.

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT

ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Cypress Creek Emergency Medical
Services Association
Houston, Texas

We have audited the financial statements of Cypress Creek Emergency Medical Services Association as of and for the year ended December 31, 2011, and have issued our report thereon dated March 17, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 14 through 16 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Svadlenak, See & Company P.C.

SVADLENAK, SEE & COMPANY, P.C.

March 17, 2012

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Functional expenses:</u>	<u>Program Services</u>	<u>General and Administrative</u>
Salaries	\$ 7,678,226	\$1,109,780
Employee health benefits	1,605,939	197,371
Accounting and legal	-	31,957
CCATT program expense	107,700	-
Communication center expense	130,411	-
Contract labor	62,325	7,660
Credit card bank charges	-	11,615
Dues	-	6,334
Education courses	24,415	-
Fundraising expenses	53,442	2,606
Insurance	771,616	-
Interest expense	-	601,235
Miscellaneous	-	94,035
Oil and gasoline	420,042	-
Pension expense	348,991	42,891
Postage	-	5,027
Printing and office	-	23,872
Recruiting and advertising	63,382	-
Rent	25,980	-
Repairs and maintenance	268,589	198,906
Supplies	903,062	-
Taxes—other	-	135
Taxes-payroll	597,226	71,246
Telephone	169,015	-
Third party billing	-	505,336
Uniforms, pins, gifts, etc.	40,115	4,930
Utilities	145,128	-
Volunteer expenses	<u>118,026</u>	<u>-</u>
 Total expenses before depreciation	 13,533,630	 2,914,936
 Depreciation	 <u>975,983</u>	 <u>121,828</u>
 Total expenses	 <u>\$14,509,613</u>	 <u>\$3,036,764</u>

SEE AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES – ACTUAL AND BUDGET

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>ACTUAL</u>	<u>BUDGET (UNAUDITED)</u>	<u>VARIANCE</u>
Support and revenue:			
Donations	\$16,322,925	\$ 7,469,630	\$ 8,853,295
Third party insurance payments	1,709,157	7,438,262	(5,729,105)
Mutual aid income	-	-	-
Educational funds	11,113	6,000	5,113
Special events-fund raisers	29,720	56,830	(27,110)
Dispatch fees-communications center	387,782	592,000	(204,218)
Interest and dividend income	532	-	532
Unrealized gain (loss) on investments	(6,058)	=	(6,058)
Gain (loss) on sale of assets	<u>6,453</u>	<u>-</u>	<u>6,453</u>
Total support and revenue	<u>18,461,624</u>	<u>15,562,722</u>	<u>2,898,902</u>
Expenses:			
Salaries	8,788,006	10,638,710	(1,850,704)
Employee health benefits	1,803,310	-	1,803,310
Accounting and legal	31,957	30,000	1,957
Bank and credit card charges	11,615	-	11,615
CCATTS program expenses	107,700	60,000	47,700
Communication center expenses	130,411	90,000	40,411
Contract labor	69,985	-	69,985
Dues	6,334	6,000	334
Education courses	24,415	36,750	(12,335)
Fundraising expenses	56,048	-	56,048
Insurance	771,616	550,000	221,616
Interest expense	601,235	700,000	(98,765)
Miscellaneous	94,035	75,000	19,035
Oil and gasoline	420,042	290,000	130,042
Pension expense	391,882	-	391,882
Postage	5,027	6,000	(973)
Printing and office	23,872	18,000	5,872
Recruit and advertising	63,382	70,000	(6,618)
Rent	25,980	25,000	980
Repairs and maintenance	467,495	300,000	167,495
Supplies	903,062	745,000	158,062
Taxes-other	135	-	135
Taxes-payroll	668,472	-	668,472
Telephone	169,015	140,000	29,015

SEE AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES – ACTUAL AND BUDGET (CONT'D.)

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>ACTUAL</u>	<u>BUDGET (UNAUDITED)</u>	<u>VARIANCE</u>
Third party billing	505,336	434,000	71,336
Uniforms pins and gifts etc	45,045	35,000	10,045
Utilities	145,128	175,000	(29,872)
Volunteer expenses	<u>118,026</u>	<u>100,000</u>	<u>18,026</u>
Total expenses before depreciation	16,448,566	14,524,460	1,924,106
Depreciation expense	<u>1,097,811</u>	<u>1,140,000</u>	<u>(42,189)</u>
Total expenses	<u>17,546,377</u>	<u>15,664,460</u>	<u>1,881,917</u>
Change in net assets	<u>\$ 915,247</u>	<u>\$ (101,738)</u>	<u>\$1,016,985</u>

SEE AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.