

**CYPRESS CREEK EMERGENCY MEDICAL
SERVICES ASSOCIATION**

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2013

WITH

INDEPENDENT AUDITOR'S REPORT

SVADLENAC, SEE & COMPANY, P.C.

Certified Public

Accountants

**CYPRESS CREEK EMERGENCY MEDICAL
SERVICES ASSOCIATION**

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FOR THE YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

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

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Ernest R Svadlenak
Melvin R See
Mark E Owens
Michael J Burcham

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Cypress Creek Emergency Medical Services Association (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, 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.
HOUSTON, TEXAS

March 10, 2014

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

ASSETS

Current assets:

Cash	\$ 3,550
Accounts receivables	5,599,472
Inventories	553,741
Prepaid expenses	<u>807,497</u>

Total current assets 6,964,260

Land, buildings and equipment-at cost, less accumulated depreciation 9,668,533

Other assets 56,721

Total assets \$ 16,689,514

LIABILITIES AND NET ASSETS

Current liabilities:

Checks written in excess of bank balance	\$ 332,530
Accounts payable	1,122,577
Current portion of long-term debt	1,663,327
Deferred revenue	825,365
Accruals	<u>206,044</u>

Total current liabilities 4,149,843

Long-term debt:

Notes payable 7,179,996

Commitments and contingent liabilities

Net Assets: -

Total net assets 5,359,675

Total liabilities and net assets \$ 16,689,514

SEE ACCOMPANYING NOTES.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED

DECEMBER 31, 2013

Support and revenue:

Support:

Donations	\$ 6,283,686
Insurance billings-net	7,686,890
Mutual aid income	500
Educational funds	45,549
Special events-fundraisers	44,461
Dispatch fees-communications centers	<u>484,533</u>

Total support 14,545,619

Revenue:

Interest income	667
Other income	33,000
Gain (loss) on sale of property	10,602
Unrealized gain (loss) on investments/properties	<u>20,794</u>

Total revenue 65,063

Total support and revenue 14,610,682

Expenses:

Program services	14,516,660
General and administrative	<u>2,841,245</u>

Total expenses 17,357,905

Change in net assets (2,747,223)

Net assets-unrestricted at the beginning of the year 8,106,898

Net assets-unrestricted at the end of the year \$ 5,359,675

SEE ACCOMPANYING NOTES.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED

DECEMBER 31, 2013

Cash flows from operating activities:

Change in net assets – increase (decrease)	\$ (2,747,223)
Adjustments to reconcile change in net assets – increase (decrease) to net cash provided (used) by operating activities:	

Depreciation	988,546	
Unrealized gain (loss) on investments	<u>(20,794)</u>	
		(1,779,471)

Change in operating assets and liabilities:

Accounts receivable	\$ 847,910	
Inventories	(64,438)	
Prepaid expenses	(69,573)	
Checks written in excess of bank balance	332,530	
Accounts payable	15,408	
Deferred revenue	825,365	
Accruals	<u>29,435</u>	<u>1,916,637</u>

Net cash provided (used) by operating activities	<u>137,166</u>
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Cash flows from investing activities:

Purchase of fixed assets	<u>(860,359)</u>
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Cash flows from financing activities:

Proceeds from long-term debt	11,568,892	
Repayment of long-term debt	<u>(10,864,930)</u>	<u>703,962</u>

Net increase (decrease) in cash	(19,231)
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Cash at the beginning of the year	<u>22,781</u>
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Cash at the end of the year	<u><u>\$ 3,550</u></u>
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Supplemental information

Interest paid in cash during the year.	<u><u>\$ 328,634</u></u>
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SEE ACCOMPANYING NOTES.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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 10, 2014, 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 Board (FASB) ASC 958, Financial Statements of Not-for-Profit Organizations.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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

Under FASB ASC 958, 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 FASB ASC 958, 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, 2013, 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 totaling \$10,794,194 and insurance adjustments totaling \$8,835,401 are netted against insurance billings for the year ended December 31, 2013.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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, 2013 consists of:

	<u>Amount</u>
Billings of insurance companies for services rendered	\$5,523,796
Communication center revenue from fire departments	<u>75,676</u>
Total accounts receivable	<u>\$5,599,472</u>

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

3. Land, buildings and equipment:

As of December 31, 2013, land, buildings and equipment consisted of the following:

	<u>Useful Lives</u>	<u>Amount</u>
Land		\$ 63,654
Buildings and improvements	5	9,236,777
Vehicles	5	3,248,406
Vehicle repair equipment	5	44,469
Bicycles	5	22,905
Communications equipment	3-5	3,396,914
Leasehold improvements	3-19	276,555
Office equipment	5	99,224
Furniture and fixtures	5-7	856,072
Medical equipment	5	2,088,887
Other equipment	3-5	<u>134,981</u>
		19,768,844
Less: Accumulated depreciation		<u>(10,100,311)</u>
Net assets		<u>\$ 9,668,533</u>

Depreciation expense for the year ended December 31, 2013 amounted to \$988,546.

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, 2013. 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. \$6,956,978

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, 2013. Principle and interest payments of \$7,466 are due in 48 monthly payments until maturity, January 2015. The note is collateralized by automotive equipment. 95,403

Note payable to bank dated December 14, 2012 in the original amount of \$178,575 accruing interest at a variable rate of approximately 4.00% at December 31, 2013. Principle and interest payments of \$5,277 are due in 36 monthly payments until maturity, December 2015. The note is collateralized by automotive equipment. 121,442

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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, 2013. 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. 62,216

Line of credit to a bank dated August 9, 2011 with a borrowing maximum of \$1,400,000. Interest is due monthly at prime plus .75%. Principle and any unpaid interest is due at April 17, 2014. The line of credit is unsecured. 811,000

Note payable to vendor dated January 2, 2013 in the original amount of \$929,892. The note does not accrue interest. Principal payments are due monthly in the amount of \$20,474 until maturity in December of 2016. The note is not collateralized by the equipment purchased. 796,284

8,843,323

Less current portion of long-term debt 1,663,327

Long term debt \$7,179,996

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

Year ending
December 31,

2015	\$ 793,051
2016	743,199
2017	577,100
2018	539,043
2019	555,293
Thereafter	<u>3,972,310</u>
	<u>\$7,179,996</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, 2013 were \$358,631.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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, 2015 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>
2014	\$19,800
2015	<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, 2013 (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.

The federal income tax returns of the Company are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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, 2013, and our report thereon dated March 10, 2014, which expressed an unmodified opinion on those financial statements, appears on page 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses and statement of activities – actual and budget are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Organization's 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 and other accounting 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 schedule of functional expenses and statement of activities – actual and budget are 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.
HOUSTON, TEXAS

March 10, 2014

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2013

<u>Functional expenses:</u>	<u>Program Services</u>	<u>General and Administrative</u>
Salaries	\$ 7,922,588	\$ 1,125,785
Employee health benefits	1,769,129	166,993
Accounting and legal	-	146,590
CCATT program expense	86,034	-
Communication center expense	172,268	-
Contract labor	63,625	5,991
Credit card bank charges	-	20,153
Dues	-	5,852
Education courses	50,120	-
Fundraising expenses	48,761	2,068
Insurance	640,880	-
Interest expense	-	325,784
Miscellaneous	-	81,670
Oil and gasoline	442,790	-
Pension expense	327,699	30,932
Postage	-	5,134
Printing and office	-	20,420
Recruiting and advertising	22,874	-
Rent	25,800	-
Repairs and maintenance	167,983	144,074
Supplies	791,224	-
Taxes-other	-	4,054
Taxes-payroll	652,136	61,343
Telephone	154,018	-
Third party billing	-	597,938
Uniforms, pins, gifts, etc.	42,814	4,041
Utilities	155,897	-
Volunteer expenses	<u>83,897</u>	<u>-</u>
Total expenses before depreciation	13,620,537	2,748,822
Depreciation	<u>896,123</u>	<u>92,423</u>
Total expenses	<u>\$ 14,516,660</u>	<u>\$ 2,841,245</u>

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES – ACTUAL AND BUDGET

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>ACTUAL</u>	<u>BUDGET (UNAUDITED)</u>	<u>VARIANCE</u>
Support and revenue:			
Donations	\$ 6,283,686	\$ 6,291,500	\$ (7,814)
Third party insurance payments	7,686,890	7,740,519	(53,629)
Mutual aid income	500	-	500
Educational funds	45,549	-	45,549
Special events-fund raisers	44,461	70,000	(25,539)
Dispatch fees-communications center	484,533	525,000	(40,467)
Other income	33,000	-	33,000
Interest and dividend income	667	-	667
Unrealized gain (loss) on investments	20,794	-	20,794
Gain (loss) on sale of assets	<u>10,602</u>	<u>-</u>	<u>10,602</u>
Total support and revenue	<u>\$ 14,610,682</u>	<u>\$ 14,627,019</u>	<u>\$ (16,337)</u>
Expenses:			
Salaries	\$ 9,048,373	\$ 8,900,000	\$ 148,373
Employee health benefits	1,936,122	1,900,000	36,122
Accounting and legal	146,590	58,200	88,390
Bank and credit card charges	20,153	-	20,153
CCATTS program expenses	86,034	75,000	11,034
Communication center expenses	172,268	98,000	74,268
Contract labor	69,617	-	69,617
Dues	5,852	4,000	1,852
Education courses	50,120	26,500	23,620
Fundraising expenses	50,828	24,000	26,828
Insurance	640,880	400,000	240,880
Interest expense	325,784	300,000	25,784
Miscellaneous	81,670	51,800	29,870
Oil and gasoline	442,790	425,000	17,790
Pension expense	358,631	350,000	8,631
Postage	5,134	6,000	(866)
Printing and office	20,420	23,000	(2,580)
Recruit and advertising	22,874	25,000	(2,126)
Rent	25,800	25,000	800
Repairs and maintenance	312,056	375,000	(62,944)
Supplies	791,224	805,000	(13,776)
Taxes-other	4,054	-	4,054
Taxes-payroll	713,479	700,000	13,479
Telephone	154,018	145,000	9,018

SEE INDEPENDENT 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, 2013

Expenses (Cont'd)

	<u>ACTUAL</u>	<u>BUDGET (UNAUDITED)</u>	<u>VARIANCE</u>
Third party billing	597,938	560,000	37,938
Uniforms pins and gifts etc	46,855	40,000	6,855
Utilities	155,898	150,000	5,898
Volunteer expenses	<u>83,897</u>	<u>70,000</u>	<u>13,897</u>
Total expenses before depreciation	16,369,359	15,536,500	832,859
Depreciation expense	<u>988,546</u>	<u>1,140,000</u>	<u>151,454</u>
Total expenses	<u>17,357,905</u>	<u>16,676,500</u>	<u>681,405</u>
Change in net assets	<u>\$ (2,747,223)</u>	<u>\$ (2,049,481)</u>	<u>\$ 697,742</u>

SEE INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

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Ernest R Svadlenak
Melvin R See
Mark E Owens
Michael J Burcham

February 27, 2014

PERSONAL AND CONFIDENTIAL

Mr. Jim Cravens
Cypress Creek Emergency Medical
Services Association
7111 Five Forks
Spring, Texas 77379

Dear Mr. Cravens:

Enclosed please find ten copies of the Cypress Creek Emergency Medical Services Association financial statements for the year ended December 31, 2013 with Independent Auditor's Report.

We have not distributed any reports; please do so at your discretion.

We would like to express our appreciation for all the fine assistance and cooperation extended to us. We sincerely appreciate your business, and hope to continue to serve your accounting needs whenever the occasion should arise.

If we might be of some assistance to you or if you have any questions regarding the enclosed reports, please do not hesitate to call.

Best regards,

Michael Burcham
SVADLENAK, SEE & COMPANY, P.C.
HOUSTON, TEXAS

MJB:sp

Enclosures