

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY
MEDICAL SERVICES, INC.

Financial Statements
With Supplementary Information

Year Ended June 30, 2011

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Financial Statements
With Supplementary Information
Year Ended June 30, 2011

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 - Business Advisors

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Independent Auditors' Report

Board of Directors
Washington County - Johnson City Emergency Medical Services, Inc.
Johnson City, Tennessee

We have audited the accompanying financial statements of Washington County - Johnson City Emergency Medical Services, Inc., (the "Company"), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Company'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 the Company as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Company's basic financial statements. The supplementary information is presented for purposes of additional analysis, and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate 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.

Rodger Moss & Co, PLLC

Greeneville, Tennessee
December 28, 2011

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Management's Discussion and Analysis
June 30, 2011

Washington County - Johnson City Emergency Medical Services Inc., a joint venture of Washington County and the City of Johnson City, was created to provide excellence in emergency medical and rescue services to all citizens of Washington County, and the citizens of Johnson City living within the city limits, and to provide the highest level of care available.

The EMS Board of Directors, Executive and Operations Directors will provide the EMS Corporation with progressive management of the EMS system, ongoing retrospective evaluation of the EMS system, and continued program improvements to the EMS system in Washington County and Johnson City.

Our main goal is always to provide the most effective and efficient patient care possible. We also strive to increase efficiency in billing and collections by using both our staff and outside agencies. With a downturn economy, we suffered a decrease in collections rate after contractual deductions of approximately 5% as compared to the previous year. We again have seen a small increase in call volume and patient charges.

There was no change in controls or compliance. We continue to rely mainly on separation of duties in the billing office to assure that all receipts are properly accounted for. Operations in the field and patient care is kept in compliance by in house Q & A, and state audits.

Washington County Johnson City EMS Inc. continues to remain strong each year even though we constantly must change with new technology, billing requirements, and new medical protocols. We continue to face the threat of government payments being reduced each year. We will continue to work with our local and state politicians to ensure the ambulance industry and WCJC EMS receives the maximum reimbursement possible. As the management team of WCJC EMS, we understand and stress to our employees that we are always under the watchful eye and scrutiny of the public and it is of up-most importance that we act in a professional manner and never give anything less than the best possible care to our patients.

Financial Statement Overview

Our financial reports are presented to the Board of Directors on a monthly basis. Before this meeting, the Executive Director, Operations Director, and Comptroller discuss the financial position of WCJC EMS.

The operations of WCJC EMS were maintained within budget.

The higher interest notes payable in the amount of \$37,384.57 and \$73,200.22 to the Bank of Tennessee were paid off early in June 2011. We also were able to buy five new ambulances without acquiring any new debt. We also had to replace an ambulance that was totaled.

We strive to remain within the boundaries of the budget, and any need for changes throughout the year is addressed at that time.

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Management's Discussion and Analysis (Continued)
June 30, 2011

Statement of Net Assets

| | <u>As of June 30,</u> 2011 | <u>As of June 30,</u> 2010 | <u>Increase</u> <u>(Decrease)</u> |
|--------------------------------|-------------------------------|-------------------------------|--------------------------------------|
| Assets | | | |
| Current Assets | \$ 2,748,182 | \$ 2,638,945 | \$ 109,237 |
| Fixed Assets less Depreciation | 2,679,830 | 2,608,081 | 71,749 |
| Other Assets | <u>614,382</u> | <u>728,560</u> | <u>(114,178)</u> |
| Total Assets | <u>\$ 6,042,394</u> | <u>\$ 5,975,586</u> | <u>\$ 66,808</u> |
| Liabilities & Equity | | | |
| Liabilities | | | |
| Current Liabilities | \$ 639,736 | \$ 1,162,521 | \$ (522,785) |
| Long Term Liabilities | 2,320,085 | 1,701,020 | 619,065 |
| Net Assets | <u>3,082,573</u> | <u>3,112,045</u> | <u>(29,472)</u> |
| Total Liabilities & Net Assets | <u>\$ 6,042,394</u> | <u>\$ 5,975,586</u> | <u>\$ 66,808</u> |

Statement of Revenues, Expenses and Changes in Net Assets

| | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Increase</u> <u>(Decrease)</u> |
|--------------------------|----------------------|----------------------|--------------------------------------|
| Operating Revenues | | | |
| Patient Charges Net | \$ 7,465,256 | \$ 7,324,399 | \$ (140,857) |
| Grant Income | 228 | 255 | 27 |
| Contributions | 29,144 | 42,842 | 13,698 |
| Miscellaneous | <u>16,059</u> | <u>11,204</u> | <u>(4,855)</u> |
| Total Operating Revenues | <u>7,510,687</u> | <u>7,378,700</u> | <u>(131,987)</u> |

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Management's Discussion and Analysis (Continued)
June 30, 2011

Statement of Revenues, Expenses and Changes in Net Assets (continued)

| | | | |
|---|---------------------|---------------------|--------------------|
| Operating Expenses | | | |
| Salaries and Wages | 5,009,621 | 4,948,940 | (60,681) |
| Employee Benefits | 1,391,982 | 1,730,078 | 338,096 |
| Other post-employment benefits | 652,750 | 638,925 | (13,825) |
| Depreciation Expense | 554,567 | 534,184 | (20,383) |
| Payroll Taxes | 368,712 | 365,563 | (3,149) |
| Insurance | 306,902 | 303,433 | (3,469) |
| Maintenance and repairs | 288,883 | 253,522 | (35,361) |
| Fuel | 245,766 | 195,839 | (49,927) |
| Supplies | 197,265 | 203,428 | 6,163 |
| Utilities and Telephone | 118,552 | 110,148 | (8,404) |
| Equipment | 102,130 | 89,564 | (12,566) |
| Communications | 47,672 | 34,531 | (13,141) |
| Uniforms | 26,037 | 21,157 | (4,880) |
| Professional fees | 24,456 | 113,997 | 89,541 |
| Public relations | 21,158 | 18,376 | (2,782) |
| Training | 18,870 | 13,106 | (5,764) |
| Postage | 14,962 | 17,529 | 2,567 |
| Travel | 13,834 | 12,490 | (1,344) |
| Health and Safety | 12,883 | 12,446 | (437) |
| Licenses and Permits | 10,318 | 9,695 | (623) |
| Miscellaneous | 10,021 | 15,615 | 5,594 |
| Collection Fees | 7,992 | 7,580 | (412) |
| | <u>9,445,333</u> | <u>9,650,146</u> | <u>204,813</u> |
| Total Expense | | | |
| Operating Loss | <u>(1,934,646)</u> | <u>(2,271,446)</u> | <u>(336,800)</u> |
| Non-Operating Revenues (Expenses) | | | |
| Appropriations | 1,894,767 | 1,894,767 | - |
| Interest Income | 30,730 | 34,661 | 3,931 |
| Gain on Sale of fixed assets | 39,206 | 13,000 | (26,206) |
| Interest Expense | <u>(59,529)</u> | <u>(64,221)</u> | <u>(4,692)</u> |
| Total non-operating revenues (expenses) | <u>1,905,174</u> | <u>1,878,207</u> | <u>(26,967)</u> |
| Net Loss | (29,472) | (393,239) | (363,767) |
| Net assets, beginning | <u>3,112,045</u> | <u>3,505,284</u> | <u>(393,239)</u> |
| Net Assets, ending | <u>\$ 3,082,573</u> | <u>\$ 3,112,045</u> | <u>\$ (29,472)</u> |

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.

Statement of Net Assets

June 30, 2011

ASSETS

Current Assets

| | |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 1,438,616 |
| Accounts receivable, net | 1,241,680 |
| Prepaid expenses | 39,733 |
| Other accounts receivable | 27,874 |
| Inventory | <u>279</u> |
| Total current assets | <u>2,748,182</u> |

Capital Assets

| | |
|--------------------------------|--------------------|
| Land | 250,000 |
| Building | 1,280,613 |
| Furniture and fixtures | 7,938 |
| Leasehold improvements | 36,139 |
| Vehicles | 2,925,537 |
| Equipment | 1,521,904 |
| Software | 135,614 |
| Less: accumulated depreciation | <u>(3,477,915)</u> |
| Total capital assets | <u>2,679,830</u> |

Other Assets

| | |
|-------------------------|----------------|
| Certificates of deposit | 428,297 |
| Investments in trust | <u>186,085</u> |
| Total other assets | <u>614,382</u> |

TOTAL ASSETS

\$ 6,042,394

LIABILITIES

Current Liabilities

| | |
|---------------------------|----------------|
| Accounts payable | \$ 164,765 |
| Accrued expenses | 315,202 |
| Notes payable - current | <u>159,769</u> |
| Total current liabilities | <u>639,736</u> |

Long-Term Liabilities

| | |
|--|------------------|
| Accrued other postemployment employee benefits | 1,291,675 |
| Notes payable - long-term | <u>1,028,410</u> |
| Total long-term liabilities | <u>2,320,085</u> |
| Total liabilities | <u>2,959,821</u> |

NET ASSETS

| | |
|---|------------------|
| Invested in capital assets, net of related debt | 1,491,651 |
| Temporarily restricted | 81,951 |
| Permanently restricted for endowed investments | 195,468 |
| Unrestricted | <u>1,313,503</u> |
| Total net assets | <u>3,082,573</u> |

TOTAL LIABILITIES AND NET ASSETS

\$ 6,042,394

See accompanying notes to financial statements.

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011

| | |
|-----------------------------------|---------------------|
| Operating Revenues | |
| Charges for patient service, net | \$ 7,465,256 |
| Grant income | 228 |
| Contributions | 29,144 |
| Miscellaneous | <u>16,059</u> |
| Total operating revenues | <u>7,510,687</u> |
| Operating Expenses | |
| Salaries and wages | 5,009,621 |
| Employee benefits | 1,391,982 |
| Other postemployment benefits | 652,750 |
| Depreciation | 554,567 |
| Payroll taxes | 368,712 |
| Insurance | 306,902 |
| Maintenance and repairs | 288,883 |
| Fuel | 245,766 |
| Supplies | 197,265 |
| Utilities | 118,552 |
| Equipment | 102,130 |
| Communications | 47,672 |
| Uniforms | 26,037 |
| Professional fees | 24,456 |
| Public relations | 21,158 |
| Training | 18,870 |
| Postage | 14,962 |
| Travel | 13,834 |
| Health and safety | 12,883 |
| Licenses and permits | 10,318 |
| Miscellaneous | 10,021 |
| Collection fees | <u>7,992</u> |
| Total operating expenses | <u>9,445,333</u> |
| Operating loss | <u>(1,934,646)</u> |
| Non-Operating Revenues (Expenses) | |
| Appropriations | 1,894,767 |
| Interest income | 30,730 |
| Gain on sale of fixed asset | 39,206 |
| Interest expense | <u>(59,529)</u> |
| Total non-operating revenues | <u>1,905,174</u> |
| Net Loss | (29,472) |
| Net assets, beginning | <u>3,112,045</u> |
| Net assets, ending | <u>\$ 3,082,573</u> |

See accompanying notes to financial statements.

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.

Statement of Cash Flows
Year Ended June 30, 2011

Cash Flows From Operating Activities

| | |
|--|--------------------|
| Cash received from customers | \$ 7,163,077 |
| Cash received from contributors | 30,197 |
| Cash paid to employees | (6,401,603) |
| Cash paid to suppliers | <u>(2,233,789)</u> |
| Net cash flows from operating activities | <u>(1,442,118)</u> |

Cash Flows from Non-Capital Financing Activities

| | |
|-----------------------------------|------------------|
| Cash received from appropriations | <u>1,894,767</u> |
|-----------------------------------|------------------|

Cash Flows From Capital And Related Financing Activities

| | |
|--|------------------|
| Purchases of fixed assets | (685,840) |
| Proceeds from sale of fixed assets | 39,206 |
| Interest expense | (59,529) |
| Proceeds from note payable | 339,297 |
| Repayments of principal | <u>(493,378)</u> |
| Net cash flows from capital and related financing activities | <u>(860,244)</u> |

Cash Flows From Investing Activities

| | |
|--|----------------|
| Interest received | 30,730 |
| Investments | <u>173,703</u> |
| Net cash flows from investing activities | <u>204,433</u> |

| | |
|---|-----------|
| Net change in cash and cash equivalents | (203,162) |
|---|-----------|

| | |
|-------------------------------|------------------|
| Cash at beginning of the year | <u>1,641,778</u> |
|-------------------------------|------------------|

| | |
|-------------------------|---------------------|
| Cash at end of the year | <u>\$ 1,438,616</u> |
|-------------------------|---------------------|

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.

Statement of Cash Flows (Continued)

Year Ended June 30, 2011

| | |
|---|-----------------------|
| Reconciliation of Operating Loss to Net Cash Flows From Operating Activities | |
| Operating loss | \$ (1,934,646) |
| Adjustments to reconcile operating loss to net cash flows from operating activities | |
| Other Post Employment Benefits | 554,567 |
| Depreciation | 652,750 |
| Changes in operating assets and liabilities | |
| (Increase) decrease in assets: | |
| Accounts receivable | (317,409) |
| Prepaid expenses | 5,009 |
| Decrease in liabilities | |
| Accounts payable and accrued expenses | <u>(402,389)</u> |
| Net cash flows from operating activities | <u>\$ (1,442,118)</u> |

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.

Notes to Financial Statements

June 30, 2011

NOTE 1 - REPORTING ENTITY

Washington County - Johnson City Emergency Medical Services, Inc. (the "Company") is a joint venture of Washington County, TN and the City of Johnson City, TN, and was created to provide excellence in emergency medical and rescue services to all citizens of Washington County and the citizens of Johnson City living within the city limits, and to provide the highest level of care available. The financial statements of the Company also include the volunteer service activities of the Washington County Rescue Services.

These financial statements present only the Company and are not intended to present fairly the financial position of Washington County, Tennessee or Johnson City, Tennessee and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of Presentation - The accounts of the Company are an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Company applies all applicable FASB Standards issued on or before November 30, 1989, those do not conflict with or contradict GASB standards. The Company has opted not to apply FASB standards issued after November 30, 1989.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Measurement Focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the "economic resources management focus," and the "accrual basis of accounting." Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Materials and Supplies - Materials and supplies are recorded at average cost.

Cash Equivalents - The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Property and Equipment - Property and equipment are recorded at historical cost, or in the case of contributed assets, at fair value at the time of the gift. Depreciation is computed using straight-line method over the estimated useful lives, ranging from 3-40 years.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenues and Expenses - The Company distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are applied first.

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Component Unit - The Company is a component unit of Washington County, Tennessee (the "County") and Johnson City, Tennessee (the "City"). The County and City are the primary governments and exercise influence. Several positions of the board of the Company are appointed by the primary government and the remaining positions are based on elected officials of the County and City and seats maintained by various occupations in the County and City.

Charges for Patient Services - Charges attributed to patient services are reported at the estimated net realizable value. Amounts include charges to patients, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to retroactive and audit adjustments. Provisions for third-party payor settlement estimates are provided in the period in which the related services are rendered. Differences arising between the estimated accrued amounts and the interim and final settlements are reported in operations in the year the settlement takes place.

Compensated Absences - The cost of vacation pay is recognized as earned by employees. Employees earn one week of vacation at the end of the first year of employment, two weeks after two years of employment and an additional day for each year after ten years for a total of three weeks after 15 years. Terminated employees are not eligible to receive compensation for vacation accrued during the first year of employment.

NOTE 3 - CASH AND INVESTMENTS

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the deposits, less amounts insured by federal deposit insurance. The collateral must be held by the Company, its agent, or by the Federal Reserve, in the Company's name.

Statutes also authorize the Company to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pool investment funds, and money market mutual funds.

Statutes require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the Company's deposits may not be returned or the Company will not be able to recover the value of its deposits that are in the possession of another party. The Company's deposits at June 30, 2011 consisted of cash and certificates of deposit at a local financial institution. At June 30, 2011, the bank balances aggregated to \$1,912,041 of which \$644,699 was covered by federal depository insurance/ national credit union association insurance, and \$1,261,405 was covered by the banks participation in the bank collateral pool, \$5,937 was not insured or collateralized at year end, however, management does not feel this amount is significant and does not pose any serious risk.

A summary of the carrying amount of these deposits at June 30, 2011 is as follows:

| | |
|----------------------|---------------------|
| Non-interest bearing | \$ 30,792 |
| Interest bearing | 1,835,688 |
| Petty cash | <u>3,508</u> |
| | <u>\$ 1,869,988</u> |

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Notes to Financial Statements (Continued)

NOTE 4 - ACCOUNTS RECEIVABLE

The accounts receivable balance consists of amounts due from Medicare, Medicaid, private pay patients, contracts and third party insurance. At June 30, 2011, the balance was \$2,755,924. The amount of the allowance for doubtful accounts has been estimated based on historical data at \$1,514,244 for net receivables of \$1,241,680.

NOTE 5 - CAPITAL ASSETS

Property, plant and equipment activity for the year ended June 30, 2011, was as follows:

| | <u>Balance Beginning</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance Ending</u> |
|--|------------------------------|-------------------|--------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 235,000 | \$ 15,000 | \$ - | \$ 250,000 |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,229,682 | 50,931 | - | 1,280,613 |
| Leasehold improvements | 17,400 | 18,739 | - | 36,139 |
| Furniture & fixtures | 7,938 | - | - | 7,938 |
| Vehicles | 2,705,578 | 532,117 | (312,158) | 2,925,537 |
| Equipment | 1,496,424 | 55,394 | (29,914) | 1,521,904 |
| Software | 121,954 | 13,660 | - | 135,614 |
| Total capital assets, being depreciated | <u>5,578,976</u> | <u>670,841</u> | <u>(342,072)</u> | <u>5,907,745</u> |
| Less accumulated depreciation | <u>(3,205,895)</u> | <u>(554,567)</u> | <u>282,547</u> | <u>(3,477,915)</u> |
| Total capital assets, being depreciated, net | <u>2,373,081</u> | <u>116,274</u> | <u>(59,525)</u> | <u>2,429,830</u> |
| Total capital assets, net | <u>\$ 2,608,081</u> | <u>\$ 131,274</u> | <u>\$ (59,525)</u> | <u>\$ 2,679,830</u> |

Depreciation expense charged during the year was \$554,567.

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Notes to Financial Statements (Continued)

NOTE 6 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2011:

| | |
|---|----------------------------|
| Note payable to a bank, 4.05% interest rate, due in monthly payments of \$5,683, through March 2026 | \$ 759,819 |
| Note payable, to a bank, 3.5% interest rate, due in monthly payments of \$3,639, through July 2015 | 162,625 |
| Note payable to a bank, 3.5% interest rate, due in monthly payments of \$7,594, through July 2014 | <u>265,735</u> |
| | 1,188,179 |
| Less amounts due within one year | <u>(159,769)</u> |
| Long-term debt | <u><u>\$ 1,028,410</u></u> |

Detail of long-term debt activity:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One year |
|-------|----------------------------|--------------------------|----------------------------|----------------------------|--------------------------|
| | \$ 796,358 | \$ - | \$ (36,539) | \$ 759,819 | \$ 38,370 |
| | 199,746 | - | (37,121) | 162,625 | 38,387 |
| | - | 339,297 | (73,562) | 265,735 | 83,012 |
| | 130,377 | - | (130,377) | - | - |
| | 124,787 | - | (124,787) | - | - |
| | <u>90,992</u> | <u>-</u> | <u>(90,992)</u> | <u>-</u> | <u>-</u> |
| Total | <u><u>\$ 1,342,260</u></u> | <u><u>\$ 339,297</u></u> | <u><u>\$ (493,378)</u></u> | <u><u>\$ 1,188,179</u></u> | <u><u>\$ 159,769</u></u> |

Maturities of long-term debt are as follows:

| Year Ending June 30 | Bank Notes | | | | | |
|------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|--------------------------|
| | 1019 | | 6588 | | Wesley | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 38,479 | \$ 5,184 | \$ 83,107 | \$ 7,970 | \$ 38,183 | \$ 30,018 |
| 2013 | 39,848 | 3,815 | 86,111 | 5,012 | 39,759 | 28,442 |
| 2014 | 41,265 | 2,398 | 89,174 | 1,950 | 41,399 | 26,802 |
| 2015 | 42,733 | 930 | 7,343 | 21 | 43,107 | 25,094 |
| 2016 | 300 | 10 | - | - | 44,886 | 23,315 |
| 2017-2021 | - | - | - | - | 253,785 | 87,218 |
| 2022-2026 | - | - | - | - | <u>298,700</u> | <u>30,391</u> |
| Total | <u><u>\$ 162,625</u></u> | <u><u>\$ 12,337</u></u> | <u><u>\$ 265,735</u></u> | <u><u>\$ 14,953</u></u> | <u><u>\$ 759,819</u></u> | <u><u>\$ 251,280</u></u> |

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Notes to Financial Statements (Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

| Year Ending June 30 | Total | |
|------------------------|--------------|------------|
| | Principal | Interest |
| 2012 | \$ 159,769 | \$ 43,172 |
| 2013 | 165,718 | 37,269 |
| 2014 | 171,838 | 31,150 |
| 2015 | 93,183 | 26,045 |
| 2016 | 45,186 | 23,325 |
| 2017-2021 | 253,785 | 87,218 |
| 2022-2026 | 298,700 | 30,391 |
| Total | \$ 1,188,179 | \$ 278,570 |

NOTE 7 - ECONOMIC DEPENDENCY

The Company is significantly dependent on Washington County, Tennessee. For the year ended June 30, 2011 revenue received from the County totaled \$1,291,272 which represents 14% of total revenue.

NOTE 8 - WASHINGTON COUNTY RESCUE SERVICES

The financial statements of the Company include the volunteer service activities of Washington County Rescue Services. The condensed financial information for Washington County Rescue Services as of June 30, 2011 is presented below.

Condensed Statement of Net Assets

ASSETS

| | |
|---------------------|-----------|
| Current assets | \$ 21,116 |
| Capital assets, net | 3,599 |
| Total assets | 24,715 |

NET ASSETS

| | |
|---|-----------|
| Invested in capital assets, net of related debt | 3,599 |
| Unrestricted net assets | 21,116 |
| Total net assets | \$ 24,715 |

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Notes to Financial Statements (Continued)

NOTE 8 - WASHINGTON COUNTY RESCUE SERVICES (Continued)

| Condensed Statement of Revenues, Expenses and Changes in Net Assets | |
|---|------------------|
| Operating revenues | \$ <u>34,124</u> |
| Depreciation | 1,537 |
| Other operating expenses | <u>33,484</u> |
| Total operating expenses | <u>35,021</u> |
| Operating loss | (897) |
| Non-Operating Income (Expense) | |
| Grant income | 228 |
| Interest expense | (2) |
| Miscellaneous expense | <u>(3,739)</u> |
| Total non-operating | <u>(3,513)</u> |
| Change in net assets | (4,410) |
| Net Assets, beginning | <u>29,125</u> |
| Net Assets, ending | <u>\$ 24,715</u> |

NOTE 9 - PENSION PLAN FUNDS

Plan Description - Employees of Washington County - Johnson City Emergency Medical Services, Inc. are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members for five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Washington County - Johnson City Emergency Medical Services, Inc. participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PSI>

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Notes to Financial Statements (Continued)

NOTE 9 - PENSION PLAN FUNDS (Continued)

Funding Policy - Washington County - Johnson City Emergency Medical Services, Inc. has adopted a non-contributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Washington County - Johnson City Emergency Medical Services, Inc. is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 9.83% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Washington County - Johnson City Emergency Medical Services, Inc. is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost - For the year ending June 30, 2011, Washington County - Johnson City Emergency Medical Services, Inc.'s annual pension cost of \$492,427 to TCRS was equal to Washington County - Johnson City Emergency Medical Services, Inc.'s required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Washington County - Johnson City Emergency Medical Services, Inc.'s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 8 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

| Fiscal Year <u>Ending</u> | Annual Pension <u>Cost (APC)</u> | Percentage of APC <u>Contributed</u> | Net Pension <u>Obligation</u> |
|------------------------------|-------------------------------------|---|----------------------------------|
| 6/30/11 | \$ 492,427 | 100.00% | \$ 0.00 |
| 6/30/10 | \$ 862,143 | 100.00% | \$ 0.00 |
| 6/30/09 | \$ 540,485 | 100.00% | \$ 0.00 |

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date, the plan was 80.26% percent funded. The actuarial accrued liability for benefits was \$8.2 million, and the actuarial value of assets was \$6.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.4 million, and the ratio of the UAAL to the covered payroll was 36.58% percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Notes to Financial Statements (Continued)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS

Plan Description - The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for the Company, is presently comprised of post-employment health care benefits and life insurance. GASB requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. This standard was effective for the Company for the fiscal year beginning July 1, 2009.

The Company maintains a cost-sharing single employer defined benefit postemployment health care plan, which includes health care, prescription drugs, vision, dental, and life insurance coverage. Eligible employees include all those who retire and are eligible for pension benefits through the Tennessee Consolidated Retirement System. Members become eligible to retire at the age of 60 with five years of service or at any age with 25 years of service. Additionally, the last ten years of employment must be with Washington County - Johnson City Emergency Medical Services, Inc. in order to be eligible to participate as a retiree. Dependents of eligible employees may continue coverage until they are eligible for Medicare or upon the death of the retiree, whichever occurs first.

Eligible retiree's coverage will be a continuation of the coverage provided them as an active employee until the retiree is eligible for Medicare. Once eligible for Medicare, the retiree will be moved to a Medicare supplement plan and will be reimbursed up to the cost contributed by the Company for an active employee. Currently, there are 108 active members and 3 retired members receiving benefits.

Funding Policy - Funding for the Company is shared by the Company and the employees. Retiree and employee contributions for the year ended June 30, 2011 were \$25,160.

Annual OPEB Cost and Net OPEB Obligation - The Company's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB standards. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Company's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Company's net OPEB obligation.

| <u>Annual OPEB Cost and Net OPEB Obligation</u> | |
|---|---------------------|
| ARC | \$ 472,396 |
| Accrued liability | <u>205,514</u> |
| Annual OPEB cost | 677,910 |
| Amount of contribution | <u>(25,160)</u> |
| Increase in NPO | 652,750 |
| Net OPEB obligation - beginning of year | <u>638,925</u> |
| Net OPEB obligation - ending of year | <u>\$ 1,291,675</u> |

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Notes to Financial Statements (Continued)

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

- Cash, certificates of deposit and accounts receivable: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

NOTE 12 - OPERATING LEASES

The Company has several non-cancelable operating leases for office equipment which expire at various dates through April 2015. Rental expenses for those leases totaled \$4,549 for the year ended June 30, 2011.

Future minimum lease payments under operating leases as of June 30, 2011 are as follows:

| Years ending June 30: | |
|-----------------------|------------------|
| 2012 | 3,880 |
| 2013 | 2,880 |
| 2014 | 2,880 |
| 2015 | <u>2,160</u> |
| | <u>\$ 11,800</u> |

NOTE 13 - SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through December 28, 2011, the date these financial statements were available to be issued.

The Company purchased property at 204 and 206 Wesley Street on December 9, 2011. The purchase price for both properties was \$500,000 financed by a 10 year, 3.55% fixed loan with Bank of Tennessee. The property will house training, convalescent dispatch, fill station and vehicle maintenance. Initially a portion of the space will be leased out to a third party.

REQUIRED SUPPLEMENTARY INFORMATION

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Schedule of Funding Progress for Defined Benefit Pension Plan (Unaudited)
Year Ended June 30, 2011

(Dollar amounts in thousands)

| Actuarial Valuation Date | (a) Actuarial Value of Plan Assets | (b) Actuarial Accrued Liability (AAL) | (b)-(a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | ((b-a)/c) UAAL as a Percentage of Covered Payroll |
|--------------------------------|---|---|--------------------------------------|--------------------------|---------------------------|---|
| July 1, 2009 | \$ 6,613 | \$ 8,239 | \$ 1,626 | 80.26% | \$ 4,445 | 36.58% |
| July 1, 2007 | \$ 5,359 | \$ 6,910 | \$ 1,551 | 77.55% | \$ 4,405 | 35.21% |

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
 Schedule of Funding Progress of Other Postemployment Employee Benefits (Unaudited)
 Year Ended June 30, 2011

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Liability (AAL) Projected Unit Credit (b) | Actuarial Accrued Liability (AAL) Projected Unit Credit (b-a) | Undfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---|---|--|-------------------------------------|--------------------------|---------------------------|---|
| 7/1/2010 | \$ - | \$ 5,378,186 | \$ 5,378,186 | \$ 5,378,186 | 0% | \$ 4,176,857 | 129% |

SUPPLEMENTARY INFORMATION

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.
Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual
Year Ended June 30, 2011

| | Budget | Actual | Variances with Budget Favorable (Unfavorable) |
|-----------------------------------|--------------------|--------------------|--|
| Operating Revenues | | | |
| Charges for patient service, net | \$ 7,407,659 | \$ 7,465,256 | \$ 57,597 |
| Contributions | 29,250 | 29,144 | (106) |
| Grant income | 225 | 228 | 3 |
| Miscellaneous | 11,544 | 16,059 | 4,515 |
| Total operating revenues | <u>7,448,678</u> | <u>7,510,687</u> | <u>62,009</u> |
| Operating Expenses | | | |
| Salaries and wages | 5,055,371 | 5,009,621 | 45,750 |
| Employee benefits | 1,401,282 | 1,391,982 | 9,300 |
| Other postemployment benefits | 432,000 | 652,750 | (220,750) |
| Depreciation | 555,600 | 554,567 | 1,033 |
| Payroll taxes | 374,097 | 368,712 | 5,385 |
| Insurance | 309,913 | 306,902 | 3,011 |
| Maintenance and repairs | 289,602 | 288,883 | 719 |
| Fuel | 245,942 | 245,766 | 176 |
| Supplies | 198,702 | 197,265 | 1,437 |
| Utilities | 119,250 | 118,552 | 698 |
| Equipment | 111,965 | 102,130 | 9,835 |
| Communications | 51,666 | 47,672 | 3,994 |
| Uniforms | 26,368 | 26,037 | 331 |
| Professional fees | 31,000 | 24,456 | 6,544 |
| Public relations | 21,250 | 21,158 | 92 |
| Training | 22,890 | 18,870 | 4,020 |
| Postage | 18,250 | 14,962 | 3,288 |
| Travel | 13,900 | 13,834 | 66 |
| Health and safety | 12,979 | 12,883 | 96 |
| Licenses and permits | 12,920 | 10,318 | 2,602 |
| Miscellaneous | 11,075 | 10,021 | 1,054 |
| Collection fees | 8,000 | 7,992 | 8 |
| Total operating expenses | <u>9,324,022</u> | <u>9,445,333</u> | <u>(121,311)</u> |
| Operating loss | <u>(1,875,344)</u> | <u>(1,934,646)</u> | <u>(59,302)</u> |
| Non-operating Revenues (Expenses) | | | |
| Appropriation | 1,894,767 | 1,894,767 | - |
| Interest income | 8,500 | 30,730 | 22,230 |
| Gain on sale of fixed asset | 39,206 | 39,206 | - |
| Interest expense | (67,129) | (59,529) | 7,600 |
| Total non-operating revenues | <u>1,875,344</u> | <u>1,905,174</u> | <u>29,830</u> |
| Net Loss | <u>\$ -</u> | <u>\$ (29,472)</u> | <u>\$ (29,472)</u> |

WASHINGTON COUNTY - JOHNSON CITY EMERGENCY MEDICAL SERVICES, INC.

Board Members

Year Ended June 30, 2011

| | |
|--------------------|-----------------------------|
| Tobie Bledsoe | Chairman |
| Bill Biles | Vice Chairman |
| Dan Eldridge | Member |
| Pete Peterson | Member |
| Regina Barkley | Member |
| Dr. Mark Wilkinson | Member |
| Wendell Messimer | Member |
| Scott Wiseman | Member |
| Jack Hall | Member |
| James Wheeler | Attorney |
| Dru Malcolm | MSHA Liaison |
| Dr. Nat Lee | Medical Director, Alternate |

Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Washington County - Johnson City Emergency Medical Services, Inc.
Johnson City, Tennessee

We have audited the financial statements of Washington County - Johnson City Emergency Medical Services, Inc. (the "Company"), as of and for the year ended June 30, 2011, which collectively comprise the Company's basic financial statements and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

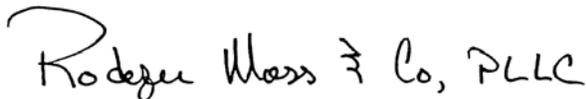
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, the Company, and the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.



Greeneville, Tennessee
December 28, 2011