

VALLEY AMBULANCE AUTHORITY

AUDIT REPORT

YEARS ENDED MAY 31, 2018 AND 2017

Davis, Baker & Co.
600 Commerce Drive, Suite 603
Moon Township, PA 15108

VALLEY AMBULANCE AUTHORITY

CONTENTS

	<u>Page</u>
<u>Audit Report</u>	
Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 6
Statements of Net Position, May 31, 2018 and 2017	7
Statements of Support, Revenues and Expenses and Changes in Net Position for the years ended May 31, 2018 and 2017	8 – 9
Statements of Cash Flows for the years ended May 31, 2018 and 2017	10
Notes to Financial Statements	11 – 16

Davis, Baker & Co.
600 Commerce Drive, Suite 603
Moon Township, PA 15108-3173
412-262-2443 Fax 412-262-2483

Douglas J. Baker, CPA
Member, Pennsylvania Institute
of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Valley Ambulance Authority
Moon Township, Pennsylvania 15108

I have audited the accompanying financial statements of Valley Ambulance Authority as of and for the years ended May 31, 2018 and 2017, and the related notes to the financial statements as listed in the table of contents.

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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Ambulance Authority as of May 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Douglas J. Baker
Certified Public Accountant
Moon Township, Pennsylvania 15108

November 9, 2018

Valley Ambulance Authority Management's Discussion and Analysis

Valley Ambulance Authority's management discussion and analysis is intended to provide an overview of the Authority's financial condition and activities for the fiscal year and should be read in conjunction with the financial statements.

Brief Discussion of the Financial Statements

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues are recorded when earned, and expenses are recorded when incurred. The financial statements include three separate statements that together reflect the results of the operational activities for the fiscal year.

The *Statements of Net Position* present information on all of the Authority's assets and liabilities as of the close of business on the last day of the fiscal year. The *Statements of Support, Revenues and Expenses and Changes in Net Position* present revenue and expenses for the fiscal year financial activities, recorded as soon as the event occurs, regardless of timing related to cash flow. The *Statement of Cash Flows* reports the change in cash resulting from the operating activities, investments and purchase or sale of capital assets during the fiscal year.

Condensed Comparative Financial Statements

	Condensed Statement of Net Position		
		(Restated)	(Restated)
	<u>May 31, 2018</u>	<u>May 31, 2017</u>	<u>May 31, 2016</u>
Current and Other Assets	\$ 1,890,679	\$ 2,722,239	\$ 2,748,515
Property and Equipment	657,717	705,412	686,631
Other Assets	<u>693,796</u>	<u>-0-</u>	<u>-0-</u>
 Total Assets	 3,242,192	 3,427,651	 3,435,146
 Total Liabilities and Deferred Income (current)	 <u>245,359</u>	 <u>269,726</u>	 <u>291,284</u>
 Net Position (unrestricted)	 <u>\$ 2,996,833</u>	 <u>\$ 3,157,925</u>	 <u>\$ 3,143,862</u>

Condensed Statement of Support, Revenue, Expenses, and Changes in Net Position

	<u>Fiscal Year Ended May 31,</u>		
		(Restated)	(Restated)
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contributions (Support)	\$ 43,279	\$ 49,302	\$ 53,781
Operating Revenue	<u>3,451,973</u>	<u>3,623,102</u>	<u>3,691,679</u>
Total Program Revenue	3,495,252	3,672,404	3,745,460
General Revenue	<u>4,341</u>	<u>24,823</u>	<u>24,360</u>
Total Revenue	3,499,593	3,697,227	3,769,820
Total Expenses (Program)	<u>3,660,685</u>	<u>3,683,165</u>	<u>3,733,418</u>
 Change in Net Position	 (161,092)	 14,062	 36,402
Prior Period Adjustment	<u>-0-</u>	<u>-0-</u>	<u>(23,582)</u>
 Ending Net Position	 <u>\$ 2,996,833</u>	 <u>\$ 3,157,925</u>	 <u>\$ 3,143,863</u>

As can be seen from the above comparative financial information, the revenues have continued to decline, the May 31, 2018 year decrease mainly a result of the ambulance call volume decrease. Expenses in total have been relatively consistent, reducing slightly over the three year period. The prior period adjustment is more fully explained in Note 10. A more detailed comparison can be seen on pages 7-10. The analysis that follows identifies items effecting the financial information over the past fiscal period, also referencing items that will affect future periods.

**Valley Ambulance Authority
Management's Discussion and Analysis**

Analysis of Financial Position and Results of Operations

The following is a summary of key plans, programs and policies which were implemented at Valley Ambulance Authority (“VAA”) during FY 2017-18. These initiatives are designed to enhance the overall delivery of high quality pre-hospital care and medical transportation within the Authority’s service area. This list also contains a description of major capital purchases made throughout the fiscal year.

- 1) **Ambulance Call Volume:** Ambulance call volume for the fiscal year (n=5,693) decreased by 5% as compared to the previous fiscal year (n=5,937);
- 2) **Wheelchair Van Call Volume:** Wheelchair van (“WCV”) call volume (n=1,450) decreased from the previous fiscal year; (n=1,773). The majority of this decrease is a reduction in WCV transports of several repetitive dialysis patients.
- 3) **Ambulance Remount:** VAA authorized the purchase of a new chassis and remounting of Ambulances 792 and 791;
- 4) **Worker’s Compensation and Property/ Liability Insurance Dividends:** VAA received a dividend of \$40,037 from the Municipal Risk Management Pooled Trust which was a result of overall lower loss ratios by the members of the Trust. The Authority also received a dividend of \$26,859 from the MRM Property and Liability Insurance Trust;
- 5) **Employee Training Activities:** Mandatory training sessions totaling 32 hours or greater were provided to all operational employees; also many employees voluntary engaged in additional hours of training activities;
- 6) **Firewall Software and Hardware Upgrade:** VAA replaced the firewall software and hardware to help maintain and strengthen computer and internet security;
- 7) **Dispatch Transition:** The Authority decided to begin a transition its internal Dispatch services to Allegheny County 911. The target date for full dispatch transition is December 31, 2018;
- 8) **Operational Employee Schedule Change:** In an effort to assist employees with their scheduling demands and to reduce overall costs; the Authority collaborated with the Union to develop a new 12 hour operational schedule which was implemented on September 3, 2017;
- 9) **Naloxone Administration Program:** VAA, in conjunction with the Heritage Valley Health System, provided training, medications and equipment to local first responders and police agencies who choose to participate in a program of initial support and administration of Naloxone to help those who may have overdosed on an opioid based substance;
- 10) **“Stop the Bleed” Training Program:** In conjunction with UPMC, VAA employees provided training to local school districts and police agencies related to mass casualty incident response and the use of tourniquets to control bleeding;
- 11) **Cardiac Arrest Register:** VAA is currently participating in a national research study called the Cardiac Arrest Register to Enhance Survival (“CARES”) project, a collaborative effort of the Centers for Disease Control and Prevention (CDC), the American Heart Association (AHA) and Emory University. The project analyses data from cardiac arrest patients and provides benchmarking tools;
- 12) **Medical Transportation Broker Contracts:** VAA negotiated several contracts with national brokers (CTS and MTM) to provide local ambulance and wheelchair van transports for subscribers to various insurance companies;

**Valley Ambulance Authority
Management's Discussion and Analysis**

- 13) **Pilot Program for on scene Treatment of patients who are not transported:** VAA worked in conjunction with Highmark, AHN Health Network and eight (8) other ambulance services in Western PA to develop and participate in a pilot program which studies various aspects of patients who are treated on scene but do not require transportation. This pilot program also provides for reimbursement for these on scene treatment which was previously not available unless the patient was transported to a to a medical facility;
- 14) **Union Grievances and Contract Negotiation:** There were no Step II grievances filed on behalf of union employees in the fiscal year .The Authority also began contract negotiations in anticipation for the current contract's expiration date of June 1, 2018. In 2017, VAA and the Union agreed to a contract amendment which increased employee contributions from 13% to 14%. to offset health care benefits costs;
- 15) **Grants obtained to purchase new Patient Care Equipment:** VAA received \$15,000 from the Secoro Foundation to purchase a new Lucas Chest Compression devise. VAA also received a 50% matching grant from the State Fire Commissioner's Office for \$6,134 to purchase miscellaneous new medical equipment;
- 16) VAA renewed relationships and **enhanced communication with participating municipalities and local public safety agencies,** including enhanced reporting, training, site visits, and submission of informational articles various municipal publications; and the delivery of comprehensive firefighter rehab services to local fire departments;
- 17) The Authority provided **medical standby coverage** for sporting and large scale regional events including but not limited to:
 - Provided medical stand-by coverage at more than **300 sporting and other public events** within the combined VAA/QVAA service area;
 - Presentation of awareness programs outlining the risks associated with impaired and /or distracted driving to local high school students and other public health and safety community programs ;
 - Medical coverage and significant disaster planning related to the Pittsburgh International Airport including a large regional air show which was held on May, 13-14, 2017;
 - Participation in various mass casualty incident (MCI) responses and exercises. VAA / QVAA are part of a special "first due" task force for local and regional disaster and mass casualty incidents (MCI);
 - VAA also participates in regular mass casualty response exercises as a part of its contract with AMR, who administers the federal disaster response contract;

Valley Ambulance Authority Management's Discussion and Analysis

Capital Asset and Long Term Debt Activity

Capital assets at cost, net of depreciation, are recorded as Property and Equipment. There is no outstanding debt on any property or purchase of equipment. The Authority has historically replaced vehicles approximately every 5 years.

Currently Known Facts, Decisions or Conditions

Valley Ambulance Authority revenue is largely dependent on the reimbursement of ambulance and medical transportation services provided to Medicare beneficiaries within its service area. Changes in these reimbursement levels have a material effect on Authority revenue as Medicare and related insurance programs account for the largest payer category.

- **2018 Medicare Fee Schedule Annual Adjustment:** Medicare increased reimbursement for urban/suburban ambulance services by a total of 1.3% for dates of service on or after January 1, 2018.

The increase was based upon a number of factors including: 1) an annual inflation factor established by CMS and; 2) a mandatory 2% decrease (or a net 1.6%) of Medicare approved rates created by a 2013 Congressional mandate called "sequestration" and 3) the Geographic Practice Cost Index or "GPCI"

The Geographic Practice Cost Index (GPCI) is used by Medicare to determine allowable payment amounts for medical procedures. The GPCI which is reviewed on a bi-annual basis allows Medicare to adjust reimbursement rates by taking into account regional and physician practice-specific cost factors. The Geographic Practice Cost Index (GPCI) increased slightly (.936 vs. .933 in 2017) for suburban PA health care providers for dates of service on or after January 1, 2018.

All of the factors together created a net increase of Medicare ambulance base rates and mileage of 1.3% for Valley Ambulance Authority and other local EMS providers.

- **Status of Temporary Increases:** Temporary fee increases for ambulance services began in 2006-07. The temporary increases have been established for urban ambulance services including VAA & QVAA at 2%. Rural ambulance services receive 3% along with a mileage bonus for loaded miles 1-17. Super Rural ambulance services receive a 22.7% increase along with the rural mileage bonus.

Since 2007, Congress has reviewed and extended these increases for various time frames. The most recent extension was approved by Congress in late 2017, which extends these 2% increases until December 31, 2022;

VALLEY AMBULANCE AUTHORITY
STATEMENTS OF NET POSITION
YEARS ENDED MAY 31, 2018 AND 2017

	May 31, 2018	(Restated) May 31, 2017
ASSETS		
Current Assets		
Cash	\$399,221.99	\$648,744.61
Short Term Investments	795,791.41	1,477,070.50
Accounts Receivable-Net of Allowance	448,003.46	386,155.32
Accounts Receivable-Gov't Units	94,668.42	86,375.88
Accounts Receivable-Other	11,557.01	963.50
Accrued Interest Receivable	1,485.00	1,465.00
Prepaid Expenses and Other Assets	139,951.39	121,464.75
Total Current Assets	1,890,678.68	2,722,239.56
Property and Equipment		
Property and Equipment	2,949,280.54	2,975,379.70
Accumulated Depreciation	(2,291,563.28)	(2,269,967.89)
Total Property and Equipment	657,717.26	705,411.81
Other Assets		
Certificate of Deposits Over 1 Year	693,795.91	0.00
Total Other Assets	693,795.91	0.00
TOTAL ASSETS	\$3,242,191.85	\$3,427,651.37
LIABILITIES & NET POSITION		
Current Liabilities		
Accounts Payable	\$74,355.43	\$56,263.95
Accrued Payroll and Payroll Taxes	74,388.81	113,018.96
Deferred Income	96,615.00	100,443.75
Total Current Liabilities	245,359.24	269,726.66
Net Position		
Unrestricted (unassigned)	2,996,832.61	3,157,924.71
Total Net Position	2,996,832.61	3,157,924.71
TOTAL LIABILITIES & NET POSITION	\$3,242,191.85	\$3,427,651.37

See accompanying notes to the financial statements and independent accountant's report.

VALLEY AMBULANCE AUTHORITY
STATEMENTS OF SUPPORT, REVENUES AND EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED MAY 31, 2018 AND 2017

	May 31, 2018	(Restated) May 31, 2017
Support		
Community Contributions	\$2,700.00	\$3,050.00
Contributions-Other	40,578.69	46,252.20
Total Support	43,278.69	49,302.20
Operating Revenues		
Ambulance Service	2,224,022.37	2,395,407.51
Ambulance Service-Stand-by	34,904.15	37,198.97
Van Service	90,157.99	99,768.85
QVAA Reimbursement	892,180.15	884,050.80
Citizens' Subscriptions	135,078.75	162,986.25
Rent-QVAA	12,000.00	12,000.00
Bad Debts Recovered	40,994.27	24,266.45
Grant Income	21,373.87	6,703.21
Miscellaneous Revenue	1,261.21	719.51
Total Operating Revenues	3,451,972.76	3,623,101.55
Operating Expenses		
Wages	2,011,284.82	1,994,104.10
Payroll Taxes	165,998.42	166,479.13
Workers Compensation	67,145.92	45,950.02
Health Insurance	260,467.36	234,938.88
Employee Benefits	23,433.87	22,655.44
TDA Contribution	91,983.38	91,179.85
Computer Expense	26,759.11	27,435.74
Shared Equipment Depreciation	22,600.75	23,095.19
Employee Education	4,380.12	4,077.73
Fuel-Fleet	51,596.35	50,385.53
Insurance	41,610.74	46,905.89
Maintenance-Building	14,818.55	16,385.42
Maintenance-Equipment	20,398.65	26,281.80
Maintenance-Communication Equipment	4,533.73	3,668.34
Maintenance-Vehicles	58,803.50	65,364.47
Maintenance-Other	3,226.14	4,114.75
Marketing/PR	7,422.31	9,437.40
Medical Supplies	22,376.36	25,295.24
Meeting and Travel	1,477.95	3,522.94
Office Expense	14,906.09	14,556.16
Professional Services	19,813.82	20,734.84

See accompanying notes to the financial statements and independent accountant's report.

VALLEY AMBULANCE AUTHORITY
STATEMENTS OF SUPPORT, REVENUES AND EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED MAY 31, 2018 AND 2017

	May 31, 2018	(Restated) May 31, 2017
Telephone	14,344.58	14,934.56
Uniforms	10,961.49	16,627.76
Utilities	19,819.55	23,308.39
Total Operating Expenses	<u>2,980,163.56</u>	<u>2,951,439.57</u>
Expenses Not Subject to Reimb.		
Auditing	13,020.00	11,583.75
Bad Debt Expense	484,989.86	526,517.42
Credit Card Fees and Bank Service Charges	4,107.56	4,378.59
Board Expenses	1,268.85	726.00
Collection Expense	12,574.09	4,352.90
Depreciation	145,486.99	161,668.01
Dues/Membership	250.00	450.00
Legal Expense	505.00	3,300.00
Subscription Expense	11,033.05	11,710.76
Miscellaneous Expense	1,124.00	100.00
Fund Drive Expenses	6,161.22	6,937.87
Total Expense Not Subject to Reimb.	<u>680,520.62</u>	<u>731,725.30</u>
Operating Income (Loss)	(165,432.73)	(10,761.12)
Nonoperating Revenues/Expenses		
Gain on Disposition of Assets	0.00	36.75
Interest Income	9,168.22	24,786.10
FNB Investment Income	14,899.96	0.00
FNB Wealth Management fees	(2,514.95)	0.00
Unrealized Loss on Investments	(17,212.60)	0.00
Total Nonoperating Revenues	<u>4,340.63</u>	<u>24,822.85</u>
Change-Net Position	(161,092.10)	14,061.73
Net Position-Beginning Before Prior Period Adjustment	<u>3,186,181.84</u>	<u>3,172,120.11</u>
Net Position-Ending Before Prior Period Adjustment	3,025,089.74	3,186,181.84
Prior Period Adjustment - Total	(33,009.18)	(28,257.13)
Adjustment included in 5/31/2017 restated amounts	<u>4,752.05</u>	<u>0.00</u>
Net Position-Ending	<u>\$2,996,832.61</u>	<u>\$3,157,924.71</u>

See accompanying notes to the financial statements and independent accountant's report.

VALLEY AMBULANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017

	May 31, 2018	(Restated) May 31, 2017
Cash Flows from Operating Activities:		
Receipts for services	\$1,852,997.55	\$2,069,499.31
Receipts for subscriptions and contributions	173,418.69	184,577.20
Receipts from Quaker Valley Ambulance for expenses	884,189.26	929,801.40
Other receipts	118,206.40	108,212.09
Payments to suppliers	(1,114,255.41)	(1,110,380.68)
Payments to employees	<u>(2,050,728.73)</u>	<u>(1,994,648.91)</u>
Net cash provided (used) by operating activities	(136,172.24)	187,060.41
Cash Flows from Capital Activities:		
Purchase of fixed assets	(105,154.19)	(203,543.41)
Proceeds from disposition of assets	0.00	36.75
Net cash used by capital activities	<u>(105,154.19)</u>	<u>(203,506.66)</u>
Cash Flows from Investment Activities:		
Interest income received	8,529.67	105,593.10
Redemption of CD's	677,070.05	1,235,463.89
Purchase of CD's	(693,795.91)	(677,070.50)
Purchase FNB Investment	0.00	(800,000.00)
Net cash provided by investing activities	<u>(8,196.19)</u>	<u>(136,013.51)</u>
Net Increase (Decrease) in Cash	<u>(249,522.62)</u>	<u>(152,459.76)</u>
Cash at Beginning of Period	<u>648,744.61</u>	<u>801,204.37</u>
Cash at End of Period	<u>\$399,221.99</u>	<u>\$648,744.61</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	(\$165,432.73)	(\$10,761.12)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	168,087.74	184,763.20
Noncash - Grant purchase of equipment	(15,239.00)	0.00
Change in assets and liabilities:		
Change in accounts receivable	(80,734.19)	35,700.18
Change in prepaid expenses & other accruals	(18,486.64)	7,626.56
Change in accounts payable/accruals	(20,538.67)	(2,397.16)
Change in deferred income	<u>(3,828.75)</u>	<u>(27,871.25)</u>
Net cash provided (used) by operating activities	<u>(\$136,172.24)</u>	<u>\$187,060.41</u>

See accompanying notes to the financial statements and independent accountant's report.

VALLEY AMBULANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017

Note 1 – Organization and Summary of Significant Accounting Policies

Organization and Reporting Entity

Valley Ambulance Authority was established in compliance with the Pennsylvania Municipal Authorities Act of 1945. The Authority was initially created in 1972 to serve the Borough of Coraopolis, the Townships of Moon, Neville, and Crescent. Effective August 16, 2002, by Certificate of Joinder granted by the Commonwealth of Pennsylvania, the Township of Findlay officially became a part of Valley Ambulance Authority. Effective March 1, 2017, the Township of Findlay was granted the authority to withdraw from the Authority pursuant to Section 5604(b) of the Municipal Authorities Act.

The primary purpose of the Authority is to furnish ambulance and other related emergency health services to the inhabitants of a primary service area, to the inhabitants of adjoining political subdivisions or areas who may require or desire such services while temporarily within such service area.

The Authority is also exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Valley Ambulance Authority is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, based on the following criteria: the Board members are appointed by multiple sponsoring municipalities; and the Board is independent in the following areas: the decision making process, the power to designate management, the ability to significantly influence operations and accountability for fiscal matters.

Basis of Accounting

The Authority uses the accrual method of accounting and is accounted for as an "enterprise fund" in conformity with generally accepted accounting principles as applied to governmental units. The Government Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Authority are described below.

Support and Revenue

Contributions to the Authority are credited directly to public support income. Non-cash contributions, if any, are recorded at fair market value as of the date of the gift.

The operations of the Authority are financed primarily through subscriptions for ambulance service and fees charged for services. The term of the subscriptions are principally for a twelve month period ending February 28 of any year and the revenue is recognized ratably over the subscription year. The portions of subscriptions that are for the periods subsequent to May 31 are deferred as income to the future period. Costs incurred for the yearly subscription drive are also deferred in order to "match" the costs with the revenues, and are allocated to expense ratably over the subscription year.

Fees charged for services are recorded when earned. Effective March 1, 2013, the Authority changed the terms of its citizen's subscription agreement. In an effort to limit the amount written-off after payments from third parties, which was previously written-off at 100%, only 50% of the remaining balance for subscribers will be written-off. The other 50% is to be paid by the subscriber.

Investments and Certificates of Deposit (at fair value)

Below is a detail of the investments held at fair value at May 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Certificates of Deposit (at cost, which approximates fair value)	\$ 693,795.91	\$ 677,070.50
FNB Wealth Management	<u>795,791.41</u>	<u>800,000.00</u>
	<u>\$1,489,587.32</u>	<u>\$1,477,070.50</u>

The investment balance of \$795,791.41 at May 31, 2018 and \$800,000.00 at May 31, 2017 is held in an account with FNB Wealth Management that is invested in Certificates of Deposit (non-negotiable) with FDIC insurance coverage, and PA General Obligation municipal bonds. These invested funds are in compliance with the recent amendment covering allowed investments by municipal authorities (Act of March 25, 2016, P.L. 72, No. 10 – Investment of Public Corporation or Authority Funds).

VALLEY AMBULANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017

Note 1 – Organization and Summary of Significant Accounting Policies (Cont'd.)

Investments and Certificates of Deposit (at fair value) (Cont'd.)

Fair values are based on the quoted market prices, and are recurring level 1 financial assets. Realized and unrealized gains and (losses) on marketable securities are recorded as a change in net assets each year on the Statement of Activities. The following table sets forth by level, within the fair value hierarchy, the investments as of May 31, 2018 and 2017 :

	<u>2018</u>	<u>2017</u>
Level 1	\$1,489,587.32	\$1,477,070.50
Level 2	0.00	0.00
Level 3	0.00	0.00
	<u>\$1,489,587.32</u>	<u>\$1,477,070.50</u>

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is determined by using the straight-line method based on estimated useful lives. Major improvements and replacements of property are capitalized. Maintenance, repairs and minor improvements and replacements are expensed. Upon retirement or other disposition of property, applicable cost and accumulated depreciation are removed from the accounts. Any gains or losses are recorded as revenue.

Bad Debts – Allowance for Doubtful Accounts Receivable

The balance in the allowance for doubtful accounts receivable is adjusted on a monthly basis, by applying historical percentages to the aged accounts receivable. Monthly contractual allowance amounts come from the accounts receivable system, and are automatically taken off the accounts receivable balances and correspondingly charged against ambulance service revenue in the month billed. Other monthly write-off amounts are generated when actual payments on accounts receivable are received, or when correspondence or other indications are received that would require write-off. The Authority's policy is to write-off receivables when they are turned over to an outside collection agency. Any recovery after it is turned over is recorded as "Bad Debts Recovered" in the "Statements of Support, Revenues and Expenses and Changes in Net Position". The allowance for doubtful account receivable is \$249,900.00 at May 31, 2018 and \$256,950.00 at May 31, 2017.

Net Working Capital

The Authority's net working capital (current assets less current liabilities) is \$1,645,319.44 at May 31, 2018 and \$2,452,512.90 at May 31, 2017.

Organization of Operation Employees

Effective March 19, 1995, the Authority entered into a collective bargaining agreement with the Fraternal Association of Professional Paramedics, which covers all full-time and regular part-time non-professional employees including, but not limited to, emergency medical technicians, paramedics, dispatchers and mechanics; and excluding management level employees, supervisors, first level supervisors, confidential employees and guards by definition. The original agreement was in effect until March 19, 1998, with a new agreement that was in effect for a five (5) year term through May 31, 2003, and shall be renewed from year to year thereafter, provided that either party may reopen or terminate. The contract has been renewed effective June 1, 2018 to May 31, 2021 (as accepted on September 13, 2018).

Use of Estimates

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

Subsequent Events

The Authority has evaluated subsequent events through November 9, 2018, the date which the financial statements were available to be issued.

VALLEY AMBULANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017

Note 2 – Property and Equipment

Property and equipment activity for the years ended May 31, 2018 and 2017 was as follows:

<u>May 31, 2018</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Land	\$ 78,350.36	\$ 0.00	\$ 0.00	\$ 78,350.36
Building and improvements	1,287,062.60	0.00	0.00	1,287,062.60
Ambulances and other vehicles	696,854.74	90,885.00	(113,825.40)	673,914.34
Ambulance equipment	389,811.96	4,512.54	(11,886.68)	382,437.82
Radio equipment	70,835.24	0.00	0.00	70,835.24
Office equipment	238,023.61	129.73	0.00	238,153.34
Shared equipment	<u>214,441.19</u>	<u>24,865.92</u>	<u>(20,780.27)</u>	<u>218,526.84</u>
	2,975,379.70	120,393.19	(146,492.35)	2,949,280.54
Less: Accumulated depreciation	<u>(2,269,967.89)</u>	<u>(168,087.74)</u>	<u>146,492.35</u>	<u>(2,291,563.28)</u>
	<u>\$ 705,411.81</u>	<u>\$ (47,694.55)</u>	<u>\$ 0.00</u>	<u>\$ 657,717.26</u>

<u>May 31, 2017</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Land	\$ 78,350.36	\$ 0.00	\$ 0.00	\$ 78,350.36
Building and improvements	1,293,442.56	0.00	(6,379.96)	1,287,062.60
Ambulances and other vehicles	724,115.14	86,565.00	(113,825.40)	696,854.74
Ambulance equipment	289,584.36	100,227.60	0.00	389,811.96
Radio equipment	70,835.24	0.00	0.00	70,835.24
Office equipment	229,828.34	8,195.27	0.00	238,023.61
Shared equipment	<u>205,885.65</u>	<u>8,555.54</u>	<u>0.00</u>	<u>214,441.19</u>
	2,892,041.65	203,543.41	(120,205.36)	2,975,379.70
Less: Accumulated depreciation	<u>(2,205,410.05)</u>	<u>(184,763.20)</u>	<u>120,205.36</u>	<u>(2,269,967.89)</u>
	<u>\$ 686,631.60</u>	<u>\$ 18,780.21</u>	<u>\$ 0.00</u>	<u>\$ 705,411.81</u>

The major classes of property and equipment are depreciated over the following estimated useful lives:

	<u>Useful Lives (Years)</u>
Building & improvements	5-40
Ambulances	5
Ambulance equipment	5
Radio equipment	5
Office equipment	3-5
Shared equipment	3-5

Depreciation expense for the years ended May 31, 2018 and 2017 was \$168,087.74 and \$184,763.20 respectively.

Various items included in ambulance, ambulance equipment and radio equipment were purchased through grants received from EMSI (Emergency Medical Services Institute). EMSI is a non-profit Pennsylvania Corporation, and normally grants 50% of the cost of such equipment and other expendable supplies. According to the terms of the contract entered into at the time of these grants, EMSI stipulates, among other things, that the title of such equipment shall be considered to be owned jointly by the Institute and the Authority in the same proportion as their respective financial contributions toward the purchase of it. The current method of recording the amount of this grant received on such equipment is a reduction of the cost of the equipment recorded on the books of the Authority. EMSI grants have been discontinued effective June 1, 2015.

VALLEY AMBULANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017

Note 3 – Expense Reimbursement

On June 10, 1975, Valley Ambulance Authority entered into an agreement with Quaker Valley Ambulance Authority wherein both parties have agreed to act jointly for the purpose of sharing certain expenses. Valley Ambulance Authority is to pay all operating expenses, and Quaker Valley Ambulance was then to reimburse Valley for 40% of the expenses, with certain expenses excepted. Effective January, 1987, a 25%-40% sliding scale based on the number of calls per month was instituted instead of the straight 40% as called for under the June 10, 1975, agreement. This range was again amended to reflect a minimum and maximum of 20%-40% effective June 1, 2002, compensating for the growth of Valley Ambulance Authority's service with the addition of the Township of Findlay and the Allegheny County Airport Authority.

In January 1992, there was an amendment of the above-mentioned agreement. This amendment established a monthly rent of \$750.00 for sixty (60) months (thereafter said rent to be re-determined) to be paid from Quaker Valley Ambulance Authority to Valley Ambulance Authority, and exempted interest expense as a joint operating expense. It has been agreed by both boards to increase the monthly rental to \$1,000.00 effective June 1, 2015.

Wheelchair van trips are a significant part of the total trips taken by the two- (2) Authorities. As a result of the continued review of the expense reimbursement methods employed, and specifically how the wheelchair van trips effect this calculation, a "revised" calculation was implemented in the fiscal year ended May 31, 2000, and has been used since then. This "revised" calculation handles the wheelchair van trips and their associated cost separately. Each authority is charged a cost assessment for each wheelchair van trip (\$50.00 for fiscal years ended May 31, 2018 and 2017). This amount is then subtracted from the total monthly reimbursable expenses, and the remaining expenses are split based on the number of ambulance trips only. The percentage used again must fall within the 20%-40% range.

Note 4 – Defined Contribution Plan

The Authority sponsors an IRC 403(b) Tax Deferred Annuity Plan (TDA) for full-time employees of the Authority. The plan was established June 1, 1989 and amended to a "non-ERISA" plan effective January 1, 2015. The plan year is from June 1 to May 31. Employees can elect to contribute a percentage of their salary to this plan. The Authority contributes 4% of employees' annual salary regardless of the employees' contributions. In addition, the Authority then matches \$.40 for every \$1.00, up to 10% of employee's base wage. The total maximum annual plan liability of the Authority is 8%. Employees are 100% vested in their own contributions and Valley's contributions are 100% vested after three- (3) years.

For the years ended May 31, 2018 and 2017, contributions required and paid by Valley to the tax-deferred annuity totaled \$91,983.38 and \$91,179.85.

The Authority also established an IRC 457(b) Deferred Compensation Plan effective September 1, 2002. This plan was established to provide deferred compensation payments for a select group of management employees or independent contractors of the Authority. This plan operates independent of, and in addition to, any other plan maintained by the Authority. The plan is funded by eligible employee's elective deferrals only (with no contribution from the Authority).

Note 5 – Risk Management

Areas of significant risk to the Authority are covered by commercial insurance, with the workers' compensation for the paid employees being paid to the Municipal Risk Management Workers' Compensation Pooled Trust, and the workers' compensation on the volunteers being covered by Moon Township. There have been no significant reductions in commercial insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The Municipal Risk Management Workers' Compensation Pooled Trust is a trust of which Valley Ambulance Authority is a voting member. The Authority's initial commitment to this trust was for a four (4) year period commencing June 1, 1994, and afterwards annually. The fund self-insures for the first \$750,000.00 per occurrence, and reinsures the liability over \$750,000.00 to insure against catastrophic losses. Premium payments are paid directly to the trust, and the trust pays all workers' compensation claims. The premiums paid to the trust are based on the remuneration and assigned rates for different job classifications, further modified by an experience modifier based on the particular member's claims experience.

VALLEY AMBULANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017

Note 6 – Cash Flow Information

The Authority considers cash in bank and cash investment accounts as cash or cash equivalents. Short-term investments, consisting of certificates of deposit with original maturities of more than three (3) months are not considered cash or cash equivalents for purposes of the Statement of Cash Flows.

The Statement of Cash Flows is prepared on the “Direct Method”, which complies with the requirements of GASB 34.

Note 7 – Cash and Investments

The carrying amount of the Authority's deposits (cash and certificates of deposit) was \$1,092,723.21 at May 31, 2018 and \$1,325,684.34 at May 31, 2017. The bank balances for these years were \$1,124,525.92 and \$1,340,752.29 respectively.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy is to place deposits in Federal Deposit Insurance Corporation (FDIC) insured institutions. Deposits in excess of the FDIC limit are collateralized pursuant to the Commonwealth of Pennsylvania Public Law 72 of 1971 (as amended), which allows depositories to satisfy collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. As of May 31, 2018, of the Authority's \$1,124,525.92 bank balance, \$500,000.00 was covered by FDIC insurance and \$624,525.92 was exposed to custodial credit risk and was included in this pool of eligible investments.

Note 8 – Transaction with Related Party

The Authority has incurred and paid \$7,670.00 in the year ended May 31, 2018 and \$8,095.00 in the year ended May 31, 2017 to Public Safety Marketing, a division of J.R. Henry Consulting, Inc., for mailings connected with the recent subscription/fund drive. The President of J.R. Henry Consulting, Inc. is J.R. Henry (the Executive Director) and the Vice President is Michael Henry (the Executive Director's son). Initially, when selecting the vendor for this service, management (excluding J.R. Henry) solicited three estimates for the mailings, and the Board of Directors chose Public Safety Marketing based on these three estimates and also on some features that only Public Safety Marketing offered.

Note 9 – Subsequent Events/Commitment

The remount of ambulance V791 was approved at the April 26, 2018 meeting. The remount was still in process at May 31, 2018, and was not delivered until November 9, 2018. The cost of the remount was \$84,543.00, and is not reflected in the May 31, 2018 financial statements.

There is an increase in the Medicaid reimbursement rate that is to be effective January 1, 2019. The reimbursement will go from \$120.00 to \$200.00 on basic life support (BLS) trips and from \$200.00 to \$300.00 on advanced life support (ALS) trips.

VALLEY AMBULANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017

Note 10- Prior Period Adjustment (PPA)/Restatement of Previously Issued Financial Statements/Subsequent Event

The gas supply for the heating of the Authority’s headquarters building has been supplied through Fabtec Incorporated for many years. In August 2018, it was discovered that the meter used to record the gas usage by the headquarters building was incorrectly read by Fabtec. The decimal point on the monthly reading was moved one place too far to the left, making the monthly billing sent to the Authority understated. Upon discovery of this error, the management of Fabtec brought this to the attention of the Authority’s management. An agreement was negotiated with Fabtec on October 30, 2018 that covered the gas billings for the periods back to October 2005 (as far back as the records that Fabtec had retained), which amounted to an additional amount owed of \$51,233.71. Because the gas utility is a shared expense with Quaker Valley Ambulance Authority, a reimbursement amount has been calculated yearly and is offset to develop a net adjustment amount. The additional amount of \$5,804.01 for the year ended May 31, 2018 is included in “Utilities” under Operating Expenses and the reimbursement from Quaker Valley Ambulance Authority of \$1,685.48 is included in the “QVAA Reimbursement” under Operating Revenues in the Statements of Support, Revenues and Expenses and Changes in Net Position. Below is a table showing the effect of this prior period adjustment on the financial statements of the Authority.

<u>Year ended</u>	<u>Adjustment</u>	<u>QVAA %</u>	<u>Net amount</u>
5/31/2017 (in restated numbers)	\$ 6,731.90	\$ 1,979.85	\$ 4,752.05
5/31/2016 and prior (PPA)	<u>38,697.80</u>	<u>10,440.67</u>	<u>28,257.13</u>
Totals	<u>\$ 45,429.70</u>	<u>\$ 12,420.52</u>	<u>\$ 33,009.18</u>

Previously issued financial statements have been restated to reflect the correction of this error in those previous periods. The additional amount due of \$45,429.70 is included in “Accounts payable” on the Statements of Net Position, and the reimbursement amount due from Quaker Valley Ambulance Authority of \$12,420.52 is included in “Accounts Receivable - Government Units” on the same statement. The additional gas utility expense of \$6,731.90 for the year ended May 31, 2017 is included in “Utilities” under Operating Expenses and the reimbursement from Quaker Valley Ambulance Authority of \$1,979.85 is included in the “QVAA Reimbursement” under Operating Revenues in the Statements of Support, Revenues and Expenses and Changes in Net Position. Any adjustments prior to the May 31, 2017 year end are shown as a “Prior Period Adjustment” on the same statement. The May 31, 2018 period reflects the correct reimbursement and utility expense for that year.

Note 11 – Other Information

As a result of the continued interest by Medicare/CMS in fraud and abuse in various health care provider industries, including the ambulance industry, CMS issued final regulations that took effect April 14, 2003 making a "compliance program" mandatory for the ambulance industry. A compliance program represents a commitment by the health care provider to both adhere to all laws and regulations and to follow controlled methods and procedures to reduce risk of violations. The Authority initiated its compliance program on 5/24/2000. The development, implementation and training under this compliance program is an ongoing process, and the Authority has continued in its efforts to comply with this program.